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Editor's view

NATALIE HOLT

Another thorn in the FCA's side over RDR 'success'

"Product providers are paying significant sums of money to distributors as part of long-term distribution deals arranged ahead of the implementation of the RDR."

That was how *Money Marketing* first revealed the extent of provider payments propping up the advice market back in 2011. Since then, we have consistently led the charge with a raft of exclusives on inducement deals, and closely followed developments as first the FSA and later the FCA tried to get a handle on the problem.

So it was surprising to hear the recent comments from FCA policy director David Geale that the regulator "remains concerned that some firms may still be receiving benefits and payments that have the potential to bias the advice they provide." Surely these should have died a death in the wake of Sesame's £16m pay to play deals?

Money Marketing understands that the renewed focus on inducements stems from a desire to ensure fund groups as well as pension providers are complying with the rules, with some in the industry suggesting asset management firms got off lightly in the first round of the FCA's inducements crackdown.

Given that the FCA has just reviewed the payments received by a total of 23 networks and nationals, the regulator looks to have found sufficient evidence to reignite the issue.

The amounts involved for "sales and marketing support", "strategic partnerships" or however else these payments are dressed up, are substantial. We reveal this week that Tenet is in receipt of payments totalling around £2m a year. Other distributors are quick to decry the size of the Tenet deals, but many stop short of disclosing the amounts they are in receipt of themselves. Nor do they deny that they receive any money from providers in the first place.



It is interesting to note that even shareholders in advice businesses are starting to question whether the multi-million-pound payments can continue year after year. If even the providers are getting worried about the scale of these deals, that should be sending alarm bells ringing at the very highest levels of the FCA.

If even the providers are getting worried about the scale of these deals, that should be sending alarm bells ringing at the very highest levels of the FCA

And the fact that providers are questioning whether payments are sustainable, rather than the risk of consumer detriment, says it all.

The FCA says its rules are not new, but neither is this a new problem. Whether it is one deal that is going against the spirit of the rules or 20, the regulator needs to act, and deal with yet another thorn in its side over the success of the RDR.

Natalie Holt is editor of Money Marketing. Follow her on Twitter: @Natalie_Holt_MM

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FCA urged to get tough on inducements

Fears are growing that networks and nationals are treading a dangerous line on marketing payments

SAM BRODBECK AND MARK SANDS

Payments made by asset managers and providers to advice firms are coming under renewed scrutiny as it is revealed there are concerns Tenet is dangerously reliant on marketing deals.

Last month the FCA completed a new piece of work on inducements, asking networks and nationals to provide details of all payments received by product providers, *Money Marketing* can reveal.

The results of the review will not be made public.

Despite the RDR coming into effect almost three years ago and the regulator publishing final guidance in January 2014, networks are still receiving millions in marketing packages. One of Tenet's major shareholders is understood to have raised concerns that the network is being propped up by marketing services agreements worth around £2m a year. In 2014, the group made a net profit of £350,000.

Pension providers are also warning that adviser support firms have been excluded from inducements rules. In addition, they say the regulator's clampdown on hospitality "is getting out of hand".

So are networks still flouting the spirit of inducements rules years after the RDR was introduced to remove bias from the advice ind-ustry? And can the FCA stop firms and providers from funnelling money in other ways?

Clampdown

Last week FCA director of policy David Geale said firms may still be receiving benefits that have the potential to influence the advice they give. Speaking at the regulator's conference on Mifid II, which will ban all third-party payments, Geale said the culture at some firms has "remained unchanged"

Are networks still flouting the spirit of inducements rules years after the RDR was introduced to remove bias from the advice industry?

since the RDR.

Money Marketing can reveal a sample of 23 firms have been asked to provide full details of all payments they receive from third parties, including pension providers and asset managers.

An FCA spokeswoman says it will not be publishing a thematic report but will feed the information into a consultation paper on the implementation of Mifid II before the end of the year.

A year ago Sesame was fined £1.6m for setting up "pay to play" distribution deals. Law firm RPC partner Robbie Constance says: "Sesame got caught and presumably the regulator was satisfied that sent a message to the market. The FCA published the guidance in January 2014 – we thought at the time it went quite easy on the market.

"There was an interpretation of the rules that they didn't take, perhaps deliberately because of the



impact that could have had. Mifid II is taking us towards a far stricter interpretation, which probably anticipates what the original rules were meant to mean anyway."

The FCA's evidence gathering comes as one of Tenet's major shareholders has raised concerns about the sustainability of roughly £2m of annual marketing payments that the network takes from providers.

The network is backed by Aegon, Aviva and Standard Life, and *Money Marketing* understands that questions have been raised by at least one of the firms.

A senior source says: "Even the providers don't view that sort of money as sustainable for long.

"Even if it's sustainable from a regulatory point of view, I don't see how it's sustainable from a commercial point of view. So they are eventually going to have to find £2m of cost-cutting in some way or another."

TenetConnect and TenetSelect managing director Mike O'Brien says the network's shareholders approved the firm's plans for 2015/16 at a board meeting last month.

Business works through relationships and to suddenly say you can't take somebody to an event – does that feel like a regulator that is trying to help competitiveness?

"It's a robust challenge process that happens every single year, and there's argument on a line by line basis. So that conversation [on marketing deals] has been had, but it has been part of a wider debate, rather than a specific point.

"Like any business, we look at our costs every year, but obviously we also have to invest and we are spending money on technology to make sure we are efficient, and the largest part of our budget is people."

Other networks have expressed surprise at the size of the sum accepted by Tenet from providers.

While they declined to share details of funds raised from providers, one rival says: "£2m sounds enormously high, and as either a provider or a distributor, you have to be able to explain that to the FCA.

"It could be that some people are still sailing close to the wind but our events budget looks entirely different."

Lighthouse Group chief executive Malcolm Streatfield agrees: "I find it inconceivable any business would be getting £2m from providers.

"They must be living in a different world to the one we are operating in."

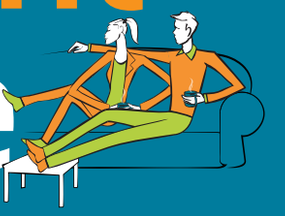
Streatfield adds many providers remain chastened following Sesame's fine.

"That was a big enough warning across the marketplace that this kind of behaviour was not going to be tolerated. So if people are starting to challenge that, then they need their heads tested."

Threesixty managing director Phil Young says his firm will take in around £350,000 this year for events, with a total of around 4,000 delegates attending. ▶

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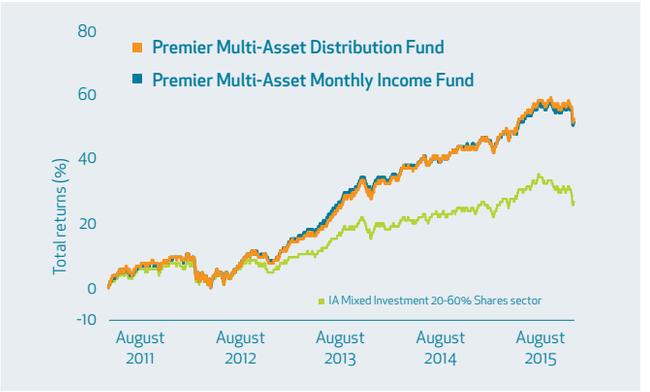
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Tenet maintains all money taken as part of marketing deals goes towards running events, which are accredited by the Chartered Insurance Institute's professional development centre and from which it makes no profit.

O'Brien says: "We are now without question the largest network for independent advice and that requires a different level of effort.

We have 1,300 advisers in total and we run events around the country. What's more, we won't just run them once. All that coffee and bacon adds up - it doesn't take that long to get through a pretty big sum of money.

"We provide copies of all our agreements to the FCA and they haven't raised anything over what we are doing. And the compliance departments of the providers are all over it like a rash to make sure that we can justify what we are charging, to the extent that we have been asked how many cups of coffee we serve at an event."

Service firm loophole

Nonetheless, O'Brien admits he is not surprised to find inducement back on the FCA's agenda and he hopes the regulator will roll out its focus to other parts of the market.

He says: "Some of the service providers wouldn't be subject to the same rules and there is potential for distortion there. I'm not saying the FCA will find anything, but it's understandable they want to look at other areas, particularly in the aftermath of the pension freedoms."

One compliance director at a large life company says that under the current regime, because service companies are not directly regulated, they can provide an avenue to navigate around inducement rules.

He says: "Threesixty, which is owned by Standard Life, can divert marketing payments through that company rather than the life company. SimplyBiz can divert marketing spend so it doesn't touch the intermediary company, in effect circumventing the rules.

"It's tempting for providers to set them up to be outside the rules and go back to the bad old days. The regulator has side stepped this a bit."

Young says his firm would be comfortable with the regulator bringing service providers into the regime.

"We have taken the view that the rules should apply to us from the perspective that it could artificially affect the cost of advice."

But SimplyBiz joint managing director Neil Stevens says his firm is already implicitly part of the rules.

"We have our auditors check our business to make sure any provider we work with does not subsidise the work we do for advisers.

"Just because we are not regulated does not mean we can take money from a provider and use that to contravene the [Conduct of Business] rules. If that was the case then we would be in breach of the conflict of interest rules, and people who say that we aren't in scope don't understand that."

Hospitality

The anonymous compliance director says marketing agreements are still being paid, though at drastically lower figures than in previous years. He says the regulator is more concerned with tightening the rules on how providers use hospitality.

"All the major life companies run some kind of sponsorship: Standard Life has the golf, Aegon has the tennis, Royal London has the cricket. On the back of that sponsorship we all run hospitality and the regulator is signposting that they can't see where providers sit with inducements rules if we are to have advisers at sporting events.

"They are not being as clear as saying you can't bring advisers; they're saying justification has to be robust in order to invite them along but no-one is giving clarity on what that justification looks like."

Streatfield says concerns over hospitality are getting in the way of firms' day-to-day business.

"Hospitality is a moot point because we rarely get invited to anything these days. But it could get to the point of being ridiculous when we are debating whether someone can buy you a cup of coffee or not.

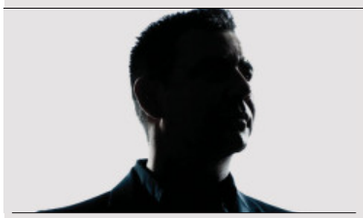
"At the basic level, when we want to have a conversation about strategic stuff and someone is worried about whether they can buy you a lunch, there are more important things to be worried about. There is a case for the pendulum to swing back into the middle ground here."

The compliance director adds: "Business works through relationships and to suddenly say you can't take somebody to an event - does that feel like a regulator that is trying to help competitiveness? It doesn't to me. It feels like the regulator is trying to police the industry, rather than working with it."

An FCA spokeswoman says: "Our rules on inducements and conflicts of interest are not new.

"The guidance published last year was aimed at helping firms better understand our expectations. It is for firms to make sure any payments, hospitality or gifts are legitimate, are in consumers' interest and that potential conflicts are well managed."

EXPERT VIEW



THE SECRET COMPLIANCE DIRECTOR

There was big money behind marketing service agreements. We don't see these so much any more but they are still in the market. The regulator originally set out to ban them and control them better and we've seen that happen. However, service companies are still out there doing them - they sit outside the rules. So ThreeSixty, which is owned by Standard Life, can divert marketing payments through that company rather than the life company. Simply Biz can divert marketing spend so it does not touch the intermediary company, in effect circumventing the rules. A responsible provider will treat service companies as if they are intermediaries, regardless of them sitting outside the rules. If you're saying service companies are outside the rules, it's tempting for providers to set them up to be outside the rules, and we go back to the bad old days. The regulator has sidestepped this.

Recently the FCA has focused more on hospitality. All the major life companies run some kind of sponsorship: Standard Life has the golf, Aegon has the tennis, Royal London has the cricket. On the back of that sponsorship we all run hospitality and the regulator is signposting that they can't see where providers sit with inducement rules if we are to have intermediaries at sporting events.

They are not being as clear as saying you can't bring intermediaries - they're saying justification has to be robust in order to invite them along but no one is giving clarity on what that justification looks like. To be completely risk-free you wouldn't invite them, but we have agreements in place over the next few years and we will have to do some kind of events alongside them. Deals are also done on the basis that you are expected to take a certain amount of hospitality with it.

I don't know why they are going after it. This is how a lot of cementing relationships at the top of adviser firms and networks is done.

Some of this policing is getting out of hand. The reality is business relationships are based on more than just proving client benefit. To say you can't take somebody to an event - does that feel like a regulator that is trying to help competitiveness? It doesn't to me. It feels like the regulator is trying to police the industry, rather than working with it.

A compliance employee who wishes to remain anonymous

ADVISER VIEWS



Robert Reid
Director
Syndaxi Chartered Financial Planners

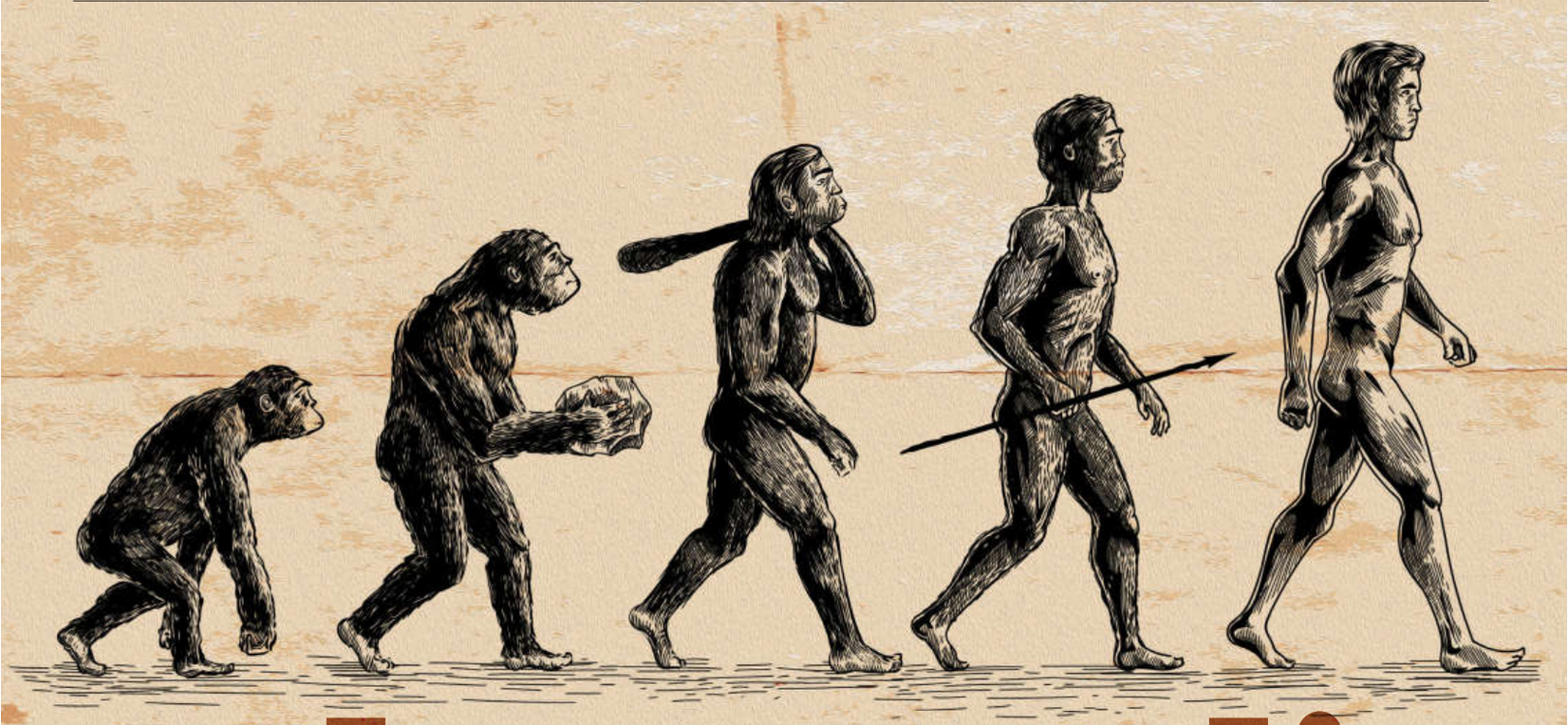
Typically the bigger networks were dependent on marketing agreements, [while]the smaller ones did not get enough money. How are networks still getting this money and who is paying it? The regulator told us they were stopping these agreements, so are they stopping it for some but not for everybody? There can be no middle ground on this.



Alistair Cunningham
Director
Wingate Financial Planning

A truly independent, client-centric financial planning firm should be able to stand on its own two feet without any support from third parties that it does not fairly pay for. Inducements, third-party payments, and other "value add" services should be totally unnecessary, and if not already banned in legislation, they should be.

Arguably there is a space for provider-sponsored and "vertically integrated" product-oriented advice, but this should have a clear label, health warning and only be dealing with more simple advice. The current regime is being used to befuddle consumers, which was surely not the intention of the RDR, and may well not be addressed by the advice review.



Adapt or die

Platforms are struggling with old technology and huge costs and must evolve to survive

TESSA NORMAN

Platforms are reaching a tipping point as the pension freedoms expose creaking technology and pricing pressures continue to squeeze margins.

In a controversial state-of-the-market report last week, consultancy The Lang Cat claimed platforms are "dead" in their current form.

The report says the platform market is "struggling", as evidenced by Legal & General's failure to secure a buyer for Cofunds and the sale of Axa Wealth by its French parent group. The report argues these developments raise questions about the platform sector as a whole.

The Lang Cat consultancy director Mike Barrett says: "Quite simply, we have a (relatively) small market, dozens of suppliers, fragmented distribution and considerable downward price pressure.

"There are profits to be made, but total domination of the sort that Axa and L&G want and expect just isn't there. We're convinced, then, that platforms - at least in the guise that we've known them for the last decade and a half - are dead."

Decumulation failings

The report argues platforms need to evolve rapidly to ensure their survival.

Barrett says: "There is an urgent need to improve back office systems and processes to drive costs out of the business.

"Equally urgent is the need to improve adviser and customer online propositions. In several cases a platform's customer portal requires you to use a PC with Internet Explorer,

If platforms are going to deliver value and service to decumulating clients, they need to be able to cope with the complications of drawdown

and even then you can only get a valuation. In a digital world customers expect much more."

The report adds that platforms are not as well set up to support the pension freedoms as they claim.

Cazalet Consulting chief executive Ned Cazalet agrees platforms are failing to deliver value to those who are drawing down assets.

He says: "As the baby boomer generation retires and all the money moves into decumulation, what does a platform actually do? If they are truly going to deliver value and service to decumulating clients, they need to be able to cope with the complications of drawdown such as pound cost averaging."

Software provider Milestone head of life, pensions and platform Kevin Openshaw adds: "Platforms have been built around the accumula- ▶

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tion of assets. The processes around administrating those assets and taking income remain very manual and labour intensive.

"As asset volumes grow, the cost of servicing them increases. It means the scalability and profitability of platforms is problematic."

The approach of the sunset clause in April 2016 has brought the tight profit margins of some platforms into sharp focus.

Nucleus chief executive David Ferguson says: "Clearly the financial performance of many platforms is unacceptable and it was always going to be the case that shareholders would eventually say 'enough is enough'."

A large platform can survive for some time without new flows, but that requires a slashing of the resources and support that attracted business

But Zurich head of retail platform strategy Alistair Wilson says arguments about profitability have to be considered in the context of a company's overall strategy.

He says: "There are very few platforms that are only looking to squeeze profits out of a single business area. We are a multi-products business, and our platform can be used to drive growth in other areas such as protection, pension wrappers and tax planning."

Wilson says as well as demonstrating profitability, platforms need to show they are still prepared to invest in their systems to cope with the level of legislative change.

He says: "Platforms need to be able to adapt to things like pension freedoms, reform around rebates, and changes to the personal allowance. There is also a raft of issues coming down the track that platforms will have to evolve to cope with, such as the advice review and Mifid II.

"Platforms need to prove they are in for the long term by continuing to reinvest. If not, the level of financial planning advisers are able to carry out will be challenged."

FundsNetwork head of advisory services Jon Everill argues many platforms are backed by bigger groups that are themselves "very profitable".

He adds: "It is more about the strategic importance a platform offers to the wider business. It is not easy to make money on platforms, but it is about reinvesting to drive efficiencies in what is a high volume, low margin business."

If platforms are unable to upgrade their technology to become more sophisticated in the decumulation space, some argue they could even be replaced by back office technology providers.

Cazalet says: "Platforms were never designed to deal with holistic financial planning. But how do advisers manage having all the assets on the platform, and all the technology software elsewhere on back office systems? They end up being torn between two computer screens."

But Iress UK managing director Simon Badley says: "We have no plans whatsoever to get into the platforms space.

"What we will see is greater integration between back office providers and platforms so the two work together seamlessly and there is no need for advisers to struggle between the two."

Everill adds: "I don't think you could do away with the platform altogether because the platform is providing functionality that the back office system can't, such as custody and dealing with assets.

"Back office providers have aspirations to integrate more deeply with platforms, but they don't have aspirations to take over completely."

ADVISER VIEW



Luke Fernquest
IFA
Fernquest Financial Planning

I have done some complex drawdown cases with a couple of the provider-owned platforms and they were pretty slick. However, there is a big difference between platforms, and some need to upgrade their technology. Clients want to be on a platform which is around for the long term.

Consolidation

The problems of the market have been highlighted by Legal & General's failed attempt to offload Cofunds, and Axa's decision to put its wealth management business Axa Wealth up for sale, including the Elevate platform.

The collapse of takeover talks with AJ Bell leaves Cofunds in a tough position if it is unable to find another provider.

It is understood L&G will either have to spend tens of millions of pounds upgrading the platform's technology or run it down.

Threesixty managing director Phil Young says: "There is little appetite for traditional merger and acquisition activity, as the process of integrating two platforms is technically too difficult.

"Every major insurance company already has a platform, and is only likely to want another to replatform by acquisition rather than make the change at the back end.

"Very rarely, an investment manager might decide it wants one for some reason, but that seems an unlikely move for the platform alone. It is not a seller's market."

Young says platforms may be wound up if a buyer cannot be found, but doing so won't be easy.

He explains: "A large platform can survive for some time without new business flows, but that requires a slashing of the resources and support which will have attracted business in the first place."

But Platforum research director Heather Hopkins says: "While it certainly isn't news that platforms as transaction engines are dead, there is still plenty of life left in these beasts, and we see several models emerging, including vertically integrated businesses. We don't expect to see consolidation in the platform market for at least the next two to three years."

EXPERT VIEW



NED CAZALET

The problems facing the platform market

There are way too many platforms in the market and return on capital is a big problem. Life companies such as Standard Life and Axa have invested much more than the established players like Nucleus and Transact yet are making similar levels of profit.

A lot of the life companies have come into the market for defensive reasons. Aviva, for instance, was not trying to go head-to-head with someone like Transact, but to protect its back book. The investments made by the life offices do not stack up as a business decision.

Beyond the financials, there is the question of what does a platform do? It is basically somewhere to transact and view the value of your investments. As the baby boomer generation retires and all the money moves into decumulation, what does it do for them?

Platforms have been struggling with building up assets, re-registration and preparing for the sunset clause. They have been under the cosh for the past few years, so when you talk to them about decumulation and technology they say 'we need to put the fire out first before repainting the hallway'.

The platform market should be looking at major players such as Google and Amazon who are gathering data and making life easier for consumers. Some may say that has nothing to do with financial planning but they are wrong: it is about taking information, coming up with a plan and providing a service.

Ned Cazalet is chief executive of Cazalet Consulting

The platform market should look at major players such as Google and Amazon who are making life easier for consumers

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MM GTR 2a

The week

MORTGAGES

Mortgage lenders split over drawdown treatment

Lenders are split on how they treat annuities and income drawdown when assessing retirement income, *Money Marketing* can reveal.

Last week *Money Marketing*'s sister title, *Mortgage Strategy*, reported on concerns that the pension freedoms could make it even more difficult for older borrowers to qualify for a mortgage into retirement.

This is because most lenders only take annuities into account when assessing post-retirement income.

However, the stances of major lenders vary significantly, which could create further confusion for borrowers.

Virgin Money, Coventry Building Society, Yorkshire Building Society and Santander all say they take annuities into account when assessing income, but not income drawdown.

A Virgin Money spokesman says: "In line with other forms of savings, we do not take drawdown into consideration for the purposes of affordability as it is not considered a regular or guaranteed form of income."

But Lloyds Banking Group, Royal Bank of Scotland and Clydesdale Bank say income drawdown may be taken into account depending on the circumstances of each case.

An RBS spokesman says: "We have a responsibility to check that the customer can service their mortgage if it ends beyond their intended retirement age. We will ask for confirmation of future pension, investment and earned income to make sure the mortgage is affordable once the borrower is retired. Annuities or income drawdown would be included in the definition of pension income."

A Lloyds spokesman says: "We need to see evidence that a regular income will be available to meet the mortgage payments. We take annuities into account and will do the same for drawdown for some customers, but it is likely to be more difficult to prove that drawdown payments will provide a guaranteed regular income."



RBS: 'We have a responsibility'

Pensions minister Baroness Altmann says consumers need to be aware that the way in which they take their pension income could affect their chances of getting a mortgage.

She says: "Anybody with a DC pension pot who is considering applying for a mortgage in the future should factor this in to their considerations when deciding whether to take a lump sum, leave their money invested or purchase an annuity."

Tessa Norman

PENSIONS

FCA sets sights on non-standard Sipp investments

The FCA has begun collecting information from Sipp providers in an attempt to identify which advisers are placing clients in non-standard investments.

From September 2016, Sipp firms will have to hold capital based on assets under administration, with an additional allowance related to the proportion of non-standard assets held.

An FCA spokeswoman confirms the regulator has this month asked firms to hold an audit of the non-standard assets they hold, including listing how they are distributed.

She says the exercise will include information on authorised advisers, unregulated advisers or directly executed business.

Chase De Vere head of communications Patrick Connolly says:

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"I would be very surprised if there were many advisers selling these products at all any more, from the perspective of whether they are right for the clients but also of the risk of the advisers recommending them as well.

"It would seem logical that these days it is the unregulated market selling them."

Dentons director of technical services Martin Tilley says: "The data could be used not only to identify rogue advisers but also to highlight Sipp operators' controls and how well they have adhered to previous thematic review guidelines."

But he warns the information will not give a complete view of the non-standard market.

He says: "Once Sipp acceptance criteria for assets began to tighten, we noticed the same promoters of non-standard and unregulated investments targeting SSAS, which do not feature in this exercise."

The industry is still divided over whether to treat commercial property as a standard or non-standard asset, despite FCA guidance published over the summer.

Sam Brodbeck

POLITICS

MPs divided on Nest-like default

MPs on the Work and Pensions committee are divided on the need for policymakers to intervene in the post-freedoms decumulation market.

Last week, the committee said the Government should not create a default option for savers who do not engage with their pension at retirement. It added: "Legislation for default options should only be introduced if long-term monitoring of the consumer outcomes from pension freedom indicates it is necessary."

The last government has already intervened in the pensions accumulation phase by capping charges for auto-enrolment schemes at 0.75 per cent and creating Nest.

Speaking at a roundtable hosted by Prospect magazine last week, Conservative MP and committee member Craig Mackinlay said: "I've now come round to the thought that there has to be more of a default, like a fund of funds that is deemed to be pretty safe and pretty pedestrian.

"It should just about do for most people and there would be a market driven, safe fund that is the place to be, a little bit like Nest."

Mackinlay's fellow committee member and pensions all-party parliamentary group chairman Richard Graham maintains that the introduction of a default would mark a return to "the idea that the man in Whitehall knows best".

Nurture Financial Planning managing director Simon Linstead says: "It just isn't cost effective for us to deal with people with small pots but they desperately need some support, so there could be a place for this."

Mark Sands

INVESTMENT

Axa Wealth to close 115 funds

Axa Wealth is to close 115 externally managed funds because they are "uneconomic" to administer.

However, no in-house funds will be closed following the review as they do not meet the "closure criteria", a company spokesman says.

The funds will close between 23 November and 7 December.

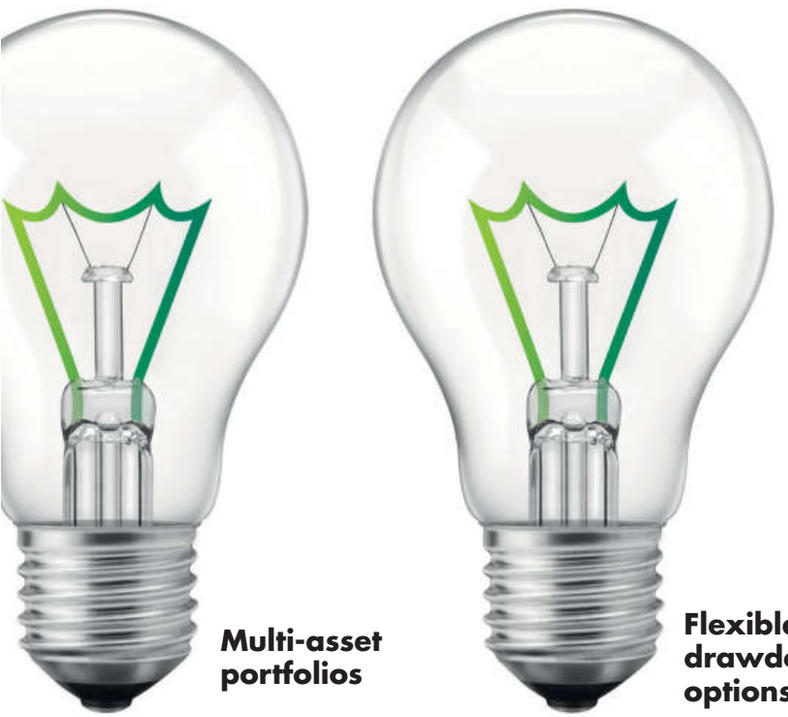
The firm says advisers invested in these funds through an Axa Wealth product will receive a letter with the details of the affected clients.

When the funds close, investments will be moved into default funds or alternative funds from the firm's range if the investor choose.

For example, the Axa Wealth Old Mutual Managed fund will be closed and investors will be transferred to the default Axa Wealth Elite Balanced Managed fund.

Rowley Turton director Scott Gallacher says: "Almost invariably they are replacing externally managed funds with internally managed funds, so I am not entirely sure it has been a completely fair and honest assessment of what the best replacement funds are. People who have bought that product haven't bought to invest it with Axa necessarily, they've bought it out of a wide range of external funds and now they are going to have 115 fewer funds to chose from."

Valentina Romeo ▶



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The week in numbers

44%

Year-on-year rise in pension investment inflows reported by St James's Place in the third quarter, from £430m to £620m

0.5%

Growth in UK GDP in the third quarter, according to estimates from the Office for National Statistics

£15.4m

Redress that payday lender Dollar Financial UK will pay to over 147,000 customers after reaching an agreement with the FCA

£204k

Salary of MAS corporate services director Lesley Robinson in 2014/15. Robinson is leaving the organisation to join MDL Marinas

£150m

Year-on-year rise in investment-linked bond sales recorded by LV= in the first nine months of 2015, from £98m to £248m

70%

Proportion of 500 adviser websites surveyed by Which? that do not publish their charges online

£474.6bn

Amount wiped off the assets of some of the UK's largest fund managers in the wake of the China crisis in the third quarter

£452.6m

Total amount lent through equity release products during Q3, £68.3m more than the previous quarter – the biggest quarterly rise in 11 years

REGULATION

Exit for 200k MAS director



Rookes: earned less than Robinson

One of the Money Advice Service's highest paid directors, who earned over £200,000 last year, has quit the organisation.

Lesley Robinson joined the MAS in 2011 as UK debt advice and corporate services director. She became one of its highest paid members of staff, taking home more than £200,000 in 2014/15.

Robinson earned a total pay and benefits package of £187,000 in 2013/14. In comparison, MAS chief executive Caroline Rookes earned £180,000 in 2014/15 and £163,000 in 2013/14.

Robinson is leaving the organisation at the end of the week to join MDL Marinas, which operates boatyards across Hampshire.

Rookes says: "Lesley has been a great asset to the MAS and has played an invaluable role in evolving free debt advice services to reach more people than ever.

"She has continued to make a full and active contribution to the leadership of the MAS since announcing her departure in September and we wish her well for her future role."

Mark Sands

INVESTMENT

FSCS to review Merchant claims

The Financial Services Compensation Scheme will consider claims against structured products provider Merchant Capital.

The FSCS says it has received a number of claims against the firm in relation to the charges levied on the payouts of certain investments by Reyker Securities, which took over administration of a number of plans when Merchant went into administration.

The lifeboat fund says it will make a decision on any compensation by the end of November.

Merchant Capital was declared in default in April 2014 after going into voluntary liquidation. It owed more than £1.5m to creditors.

Reyker Securities became responsible for the administration of the investments and income payments after Merchant Capital defaulted, and levied a charge on maturity payments for some clients.

The FSCS has stated: "FSCS considers that in certain circumstances Merchant Capital is liable to investors for certain costs where Merchant Capital contracted with investors that no additional costs would be incurred during the lifetime of the investment for standard administration and safeguarding of the investments."

Reyker initially charged individuals £15 to £25 on their delayed income payments, but it later emerged around 12,000 Merchant Capital investors faced hundreds of thousands of pounds in charges.

In October 2014, two clients of Reyker submitted a test case to the FSCS for compensation.

Laura Suter

ADVISER

Pension inflows boost SJP assets

St James's Place saw total assets under management hit £54.5bn at the end of the third quarter as more than £620m of new pension money flowed to the wealth manager.

The firm's latest update reveals gross inflows of funds under management were £2.32bn in the three months to 30 September, up 20 per cent compared with the £1.94bn of inflows recorded in the same period last year.

Over the first nine months of 2015 gross inflows increased 16 per cent, from £5.78bn in 2014 to £6.72bn this year.

Net inflows have also surged year-on-year. Over the quarter, net inflows were up 17 per cent from £1.26bn to £1.48bn, while in the nine months to September, net inflows rose 12 per cent from £3.7bn to £4.15bn.

Pensions attracted £620m of net inflows during the quarter, up 44 per cent year-on-year from £430m. Net inflows to unit trusts and Isas rose marginally, from £520m to £530m, while investments attracted £330m of net inflows during the period compared with £310m in Q3 2014.

SJP chief executive David Bellamy says: "Following the implementation of arguably the biggest changes to retirement options in a generation, our partners have understandably been particularly active in helping clients to fully understand the more flexible, often complex, options available in respect of their retirement funds so that they may decide which best suits their immediate and future financial objectives."

Tom Selby

EVENTS

Join MM's Brave New World

Money Marketing is hosting a series of one-day regional conferences to help advisers tackle the challenges arising from the pension freedoms.

The Brave New World events take place in November to help firms deal with the many legislative changes to come across their desks, spanning pensions, tax planning and retirement income.

Money Marketing editor Natalie Holt and head of news Tom Selby will be chairing the conferences, which will feature keynote interviews with Financial Services Compensation Scheme chief executive Mark Neale and FCA head of pension policy Maggie Craig.

Other notable speakers include EY senior adviser Malcolm Kerr, gbi2 managing director Graham Bentley and Pension Policy Institute director Chris Curry.

Advisers will also be able to debate the success (or not) of pension freedoms with *MM* columnists Nic Cicutti and Stephen Womack, and Fairer Finance managing director James Daley.

Money Marketing's Brave New World events are in Edinburgh on 17 November, Manchester on 19 November and in London on 24 November. To register for your free place, go to conferences.moneymarketing.co.uk/BNW

Quote of the week

"They need to put the fire out first before repainting the hallway"

cazalet Consulting chief executive Ned Cazalet on the need for platforms to address immediate regulatory challenges before tech upgrades





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REGULATION

Payday lender will hand back £15m to customers

Skilled persons review shows customers lent more than they could repay

MARK SANDS

Payday lender Dollar Financial UK has agreed to hand back £15.4m to customers following an agreement with the FCA.

The firm, which trades as The Money Shop, Payday UK, Payday Express and Ladder Loans, will refund the money to over 147,000 customers.

It comes after a skilled persons review of Dollar's lending decisions, which found that between April 2014 and April 2015, customers were lent more than they could afford to repay.

Dollar has since agreed to make changes to its lending criteria.

FCA director of supervision for retail and authorisations Jonathan Davidson says: "The FCA expects all credit providers to carry out proper checks to ensure that borrowers don't take on more than they can afford to pay back. We are encouraged that Dollar is committed to putting things right for its customers."

The deal will see 65,000 customers offered cash refunds, while a further 67,000 will have their loan balances reduced, and 15,000 will receive both. Dollar will start contacting customers immediately and plans to complete the redress exercise by early 2016.

The Office of Fair Trading first raised concerns about Dollar's lending decisions in February 2014. Due to a systems error, customers received a loan amount which exceeded Dollar's lending criteria. Last year, some 6, 247 customers received a refund as a result, amounting to a total redress bill of over £700,000.

In July, fellow payday loans firm Cash Genie agreed to pay £20m in redress to customers after the firm approached the regulator to confirm it had engaged in unfair practices on charges and interest, and refinancing of loans undertaken without explicit requests or permissions from customers.

And in October last year Wonga agreed to write off 330,000 customers' loan balances after the FCA found evidence the payday lender was failing to adequately assess customers' ability to meet repayments.

The regulator said Wonga "was not taking adequate steps to assess customers' ability to meet repayments in a sustainable manner".

As a result, the firm entered into a "voluntary requirement" agreement that saw it make significant changes to its business model. Approximately 330,000 customers who were in excess of 30 days in arrears had the balance of their loan written off and as a result owed Wonga nothing.

Wonga's annual results, published on the same day as the redress agreement, revealed it would write off £220m of loans following the FCA deal, resulting in a hit to its bottom line of £35m.

ADVISER VIEW



Martin Bamford
Managing director
Informed Choice

It is good to see the FCA intervening in this murky area of retail financial services. The way many payday lenders prey on the most vulnerable in society to make excessive profits is a clear indicator better regulation of this sector is needed. The majority of consumers can make the distinction between legal loan sharks and professional financial planners, but for some all bad headlines will be viewed as applying to financial services in general.

£15.4m

Amount Dollar Financial UK will hand back to customers following its agreement with the FCA

147k

Number of Dollar customers who will receive a refund

£35m

Profit hit suffered by Wonga following a simlar redress settlement agreed with the FCA last year





PENSIONS

Govt under fire as Altmann urges providers to axe pension exit fees

Advisers say forcing providers to change terms of contracts will block financial services investment

SAM BRODBECK

The Government has been warned proposals to retrospectively attack pension exit fees are misjudged and will hurt UK financial services.

The Treasury's consultation on barriers to the pension freedoms - including exit penalties and transfer processes - closed last week.

The consultation sets out three options for limiting exit fees: capping all early exit fees, a flexible cap or a voluntary approach for providers.

Pensions minister Ros Altmann has urged providers to scrap fees. She told the Telegraph at the weekend: "This is a wake-up call to the industry. I beg you, just look after the customers.

"There are some insurers being fair, writing off some of their back book and bringing down the old legacy charges - that's great, they get it.

"My message is - if you don't look after your customers, then whatever Government does to get people into pensions, they are not going to stay."

In its response to the consultation AJ Bell has also called for penalties "that block access to the new pension freedoms" to be scrapped.

Marketing director Billy Mackay says: "The main reason given for exit penalties is to cover initial costs but you have to question whether it is reasonable to still be collecting charges for events that may have happened around a quarter of a century ago.

"It is debateable whether some exit penalties really do relate exclusively to initial set-up costs or whether they are actually about ongoing provider profitability. In reality the cost was baked into the contract many years ago to ensure the product was profitable over a range of customer circumstances."

But advisers warn forcing providers to change the terms of contracts will block investment into financial services.

Rowley Turton director Scott Gallacher says: "I have an issue with the idea that providers should be made to scrap exit fees. It creates a precedent that providers can set up businesses on one set of terms, which can then change. It sends a message that you shouldn't invest in UK fin-ancial services. You need to be able to plan for 30 years. If there was a big rip-off culture here, you'd have a flood of firms coming in but you don't."

The Government is not considering extending the exit penalties changes to with-profits funds.

Furnley House director Stefan Fura says if market value adjustments and fees in place to recoup commission are not included within the scope of the changes, the Government "is not really addressing the issue".



Altmann: 'Wake-up call'

The consultation also asks for views on the impact of the advice requirement on the transfer of safeguarded benefits worth £30,000 or more.

The Association of British Insurers and Royal London have previously urged the Government to scrap the requirement for policies with guaranteed annuity rates, while Aegon argues mandatory advice should be removed entirely.

Aegon regulatory strategy manager Kate Smith says: "There has been widespread confusion about how to apply the £30,000 advice requirement, particularly when valuing safeguarded benefits and the pensions industry needs urgent clarity from the Government and regulator.

"A simpler way forward would be to replace the advice requirement with regulatory principles for providers to point out the value of safeguarded benefits in all relevant member communications."

The speed of transfers has also come under scrutiny, with Hargreaves Lansdown backing a 30-day transfer deadline and Altus calling for the adoption of open standards for pension transfers.

EXIT FEES: THE SCALE OF THE PROBLEM

In September the FCA published its audit of exit penalties levied by providers.

It found nearly half a million pension customers have policies subject to exit fees of over £1,000. The regulator's survey of 23 firms found 463,000 people with unitised pension policies – excluding conventional with-profits policies – of all ages would be hit with a fee of £1,000 or more if they left policies early.

However, there would be no exit fee at all for 83.6 per cent of customers aged 55 or over and 89.6 per cent for people younger than 55. This is equivalent to 17 million people.

In addition, 990,000 would pay £250 or less, while at the opposite end of the scale 39,000 people would pay £5,000 or more if exiting a policy early.

The most common reason firms gave for levying exit fees was to recoup outstanding initial expenses and/or initial commission already paid out.

Other reasons given included recouping charges that would have been deducted over the full life of the policy and ensuring exiting individuals were put in the same position as someone who had chosen a shorter duration of the policy at outset.

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ADVICE

Standard Life slammed for sending 'poaching' letters to advised clients

'Company trying to get advisers' clients to contact them on flimsy grounds'

TESSA NORMAN

Advisers have slammed Standard Life for sending "poaching" letters to advised clients.

The provider has written to thousands of customers urging them to review whether its Annuity Purchase fund is still suitable for them.

The letter says the fund is designed for customers who are planning to buy an annuity.

It says for those who are yet to decide how to take their pension, Standard Life's Active Plus II pension fund "is considered appropriate".

The letter explains this fund costs 0.11 per cent more than the Annuity Purchase fund.

A Standard Life spokeswoman originally claimed the letter had only been sent to non-advised clients.

However, the spokeswoman later admitted it had been sent to a "small number" of advised customers in error. She said it had written to fewer than 100 advised customers.

HCF Partnership financial adviser Ian Bennett, whose client received a letter, says: "Standard Life appears to be trying to get advisers' clients to contact them on flimsy grounds. Other advisers need to be aware Standard Life is trying to poach clients.

"This fund has performed well so it is very worrying that customers may be tempted to move into another fund without any fact-finding taking place."

Thameside Financial Planning director Tom Kean says: "Life offices trying to flirt with clients directly has been going on for years, but this is worrying. One has to question how Standard Life's systems allowed this mistake to happen."



Standard Life: 'Accused of 'trying to flirt with client directly'

A Standard Life spokeswoman says: "This should not have happened as the letter was intended for non-advised customers only.

"We will be contacting Mr Bennett to apologise for this error."

The provider has also been criticised for the content of the letter, which experts argue risked overstepping the line between advice and guidance.

Former FSA head of retail policy and regulatory consultant David Severn says: "This may well be construed by a reader as advice to take a particular course of action.

"This is sailing close to the wind on the FCA's definition of advice."

Bennett says: "This letter strays into regulated advice without knowing the facts of the client."

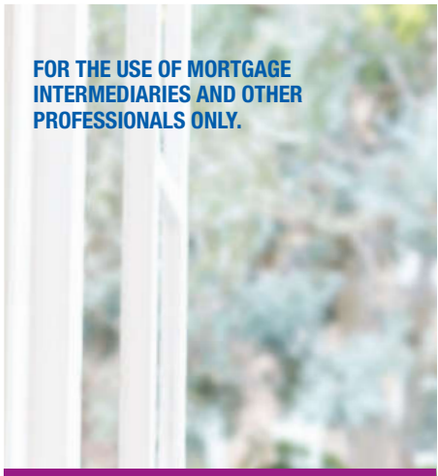
The Standard Life spokeswoman says: "This communication is intended to provide information and prompt customers to consider taking action if they aren't intending to buy an annuity when they retire."

0.11%

Extra charge investors who switch to the Annuity Purchase fund will have to pay

100

Standard says fewer than 100 advised customers received the letter in error



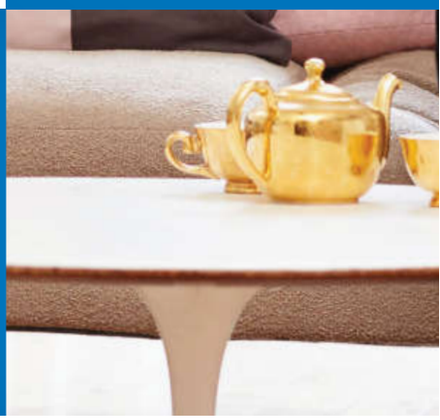
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ADVICE

Which? advice fee study 'misleading'

Industry leaders refute consumer group's claim that advisers fail to publicise charging information

TESSA NORMAN

Which? has been accused of "misleading" consumers with research that suggests two-thirds of advisers provide no charges information online.

Research published by the consumer campaign group shows that of 500 advice firms' websites, 70 per cent do not publish their charges online. It says out of the 115 sites which claim to show fees, 76 per cent do not give enough detail to give "a real indication" of what a customer would pay.



Which? claims just 2 per cent of the sites it looked at "publish genuinely useful information for clients, including a clear breakdown of charges".

The group claims just 33 sites allowed its researchers to download a key facts document. And out of 206 firms contacted via phone, it said 31 per cent provided a rough idea of fees, but 12 per cent refused to divulge costs.

Which? is calling on the FCA to review whether it should be mandatory for advisers to display fees on their websites. Which? executive director Richard Lloyd says: "Good IFAs have nothing to fear by publishing fees online and we believe that if some firms can do it, then the others have no excuses.

"We need IFAs to be much more open about charges or the regulator should step in and change the rules."

But Apfa director general Chris Hannant says: "This is utterly misleading. It gives the impression you cannot find out how much advice costs, which is unhelpful.



Hannant: 'Which? is adding to sense of fear about seeing an adviser'

"Advisers have to disclose their costs face-to-face so charges will never come as a surprise to a customer. Which? is adding to the sense of fear around going to see an adviser, so they are actually damaging consumers' interests just for the sake of the headline.

"The message you take away from the press release is that you shouldn't go to an adviser because it's all a bit murky."

However, Hannant says the more advisers can do to give consumers an indication of fees online, the more likely consumers are to engage.

He says: "Approaching an adviser without any idea of what it will cost can be intimidating: it's like walking into a shop with no prices."

Personal Finance Society chief executive Keith Richards says: "There should be more focus on the benefits of advice, rather than cost alone. Otherwise, reports like this fuel mistrust of the sector and contribute to poor consumer empowerment to make informed decisions.

"It is fair to say there is often confusion and suspicion over fee structures of most professional services, so this is not a unique problem to advisers. Clients have individual needs, which makes it challenging to state an exact fee without potentially misleading a prospective client."

ADVISER VIEWS



Philip Milton
Managing director
Philip J Milton & Company

If some advisers can publish indicative costs on their sites, then everyone should be able to. However, consumers should be made aware they can speak to an adviser to get an idea of the cost of advice for their circumstances, and that fees will always be disclosed to them before they agree to go ahead.



Chris Daems
Director
Cervello Financial Planning

We give clear costs on our website for ongoing services. We have tried to do the same for upfront advice but it is really tough. We time-cost a lot of our work, so until we know the client's situation, we cannot know how long it will take. If we give an indicative cost and are approached by a client with a situation which takes longer, as a business we cannot take on loss-leading work.

31%

Percentage of advisers who gave a rough idea of fees when contacted over the phone

349

Number of firms, out of 500, which gave no details of fees on their website

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POLITICS

We need new approach to warning of pension fraudsters, says MP

Call for greater balance to stop rhetoric on rip-offs discouraging savers from seeking advice

MARK SANDS

An influential MP has joined calls for policymakers to rethink their approach to boosting awareness of scams under the pension freedoms, arguing that the focus on fraud is hurting advice.

At the Labour party conference in Brighton last month, Standard Life warned the political focus on pension rip-offs was leaving the public more vulnerable to scams.

Speaking at a roundtable debate on pensions advice in parliament last week, Work and Pensions committee member Richard Graham said there was a need to strike a balance between the rhetoric over pension fraud and the take-up of advice.

Graham, who also chairs the all-party parliamentary group on pensions, said: "There's an intrinsic contradiction between trying to highlight potential scams and trying to encourage people to get advice.

"If you're saying all these people are likely to rip you off and scam you, it's not going to encourage many people to look at advice.

"We have to recognise there's a tension there and not risk encouraging people to look at all advice firms as likely or probable crooks – that's not the best starting point."

Graham also called for Citizens Advice to lobby MPs more effectively to boost awareness of Pension Wise.

Citizens Advice provides a face-to-face guidance service, via a network of 50 regional distribution centres.

Graham said: "I bet all the MPs on the work and pensions committee have no idea in their constituency, and in their neighbouring constituencies, which is the one Citizens Advice bureau that actually provides Pension Wise guidance.

"There's a massive opportunity here, and [Citizens Advice] should use MPs as its marketing arm to help with free publicity."

Citizens Advice senior policy researcher Thomas Brooks, who also attended the event, said the organisation has been restricted from promoting the service publicly by parliamentary purdah rules.

He added: "Now purdah is finished, we are talking to the Treasury, but it's an ongoing discussion on how they can promote it at a national level, and we can promote it locally."



ADVISER VIEWS



Anna Sofat
Managing director
Addidi Wealth
We have to keep a balance on fraud because it is a huge risk. There needs to be a bit of a PR job by both us and the regulator about what a regulated adviser is and what they do. Then you could include the warning about potential scams, but also provide some reassurance by telling clients about how tightly we are regulated.



Paul Holiday
Financial adviser
Greensky Wealth
The focus on fraud does not help. People can think they are seeing scandal after scandal, and that puts them off investing. That means more people will probably just leave their money in bank accounts because they think we are all tarred with the same brush.



At 65, Stuart is a cautious investor with pension savings of £250,000. He's ready to retire and take an income from his pension but is concerned about being able to maintain the lifestyle he enjoys.

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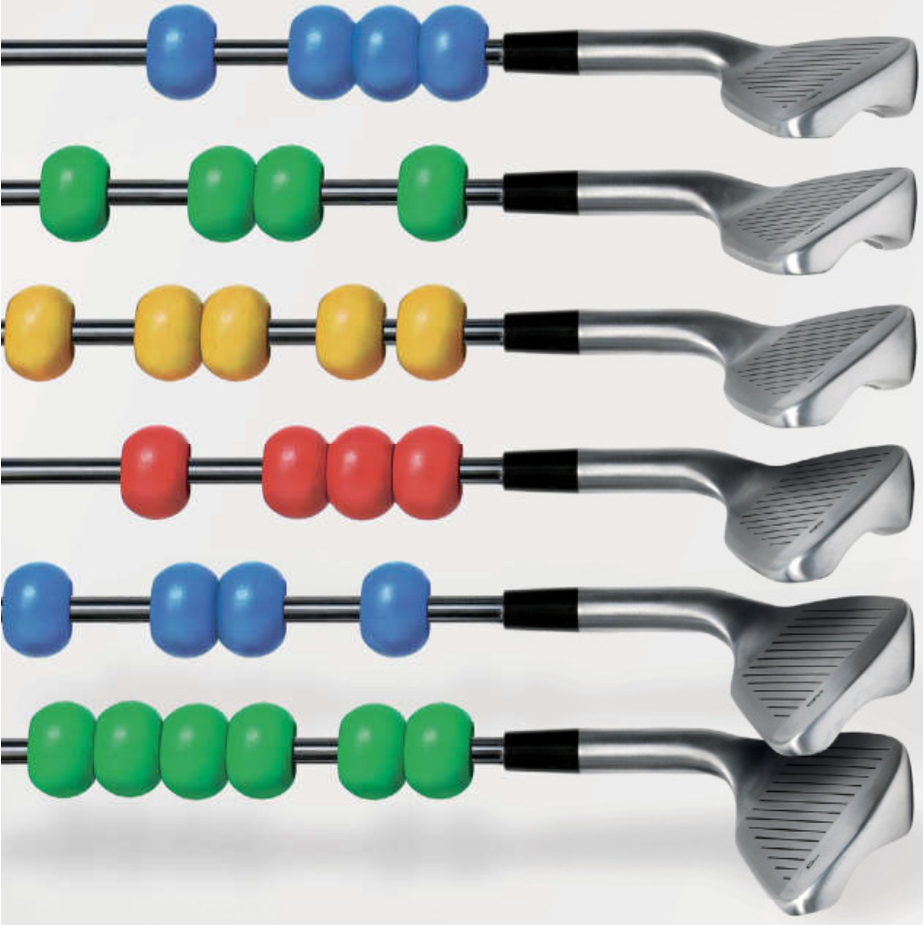
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PENSIONS

Advisers' opinions are divided over DWP 'Workie' auto-enrol campaign

Spending on prime-time TV ads featuring cuddly monster 'a monumental waste of money'

MARK SANDS

A new marketing campaign from the Department for Work and Pensions to encourage awareness among small businesses about automatic enrolment has divided opinion among advisers.

The campaign, which was unveiled last week, centres on "Workie", a monster designed to represent workplace pensions. The DWP has budgeted £8.54m for the campaign for 2015/16.

Rowley Turton director Scott Gallacher says: "While the message might be correct, a completely untargeted national prime-time TV advert is simply a monumental waste of taxpayers' money.

"Those people who are ignoring this will continue to do so. It would have much better, and no doubt cheaper, to simply have The Pensions Regulator send a couple more letters to each employer."

Syndaxi Chartered Financial Planners managing director Robert Reid says the advertisement "will have zero effect on the target group".

He adds: "I'm sure they will get more contact over where to get the Sesame Street pension toy than over workplace pensions. It's a waste of money."

Threesixty managing director Phil Young adds: "It's important to think about the target audience and how they like to be communicated with. If you're a business owner and employer, the chances are you like people to get to the bottom line quickly: what do I have to do and when - and, most importantly, what happens to me if I don't do it?



Workie: DWP has budgeted £8.54m for the marketing campaign

"In its armoury, the DWP has personal fines and public naming and shaming, all of which have dire consequences for business owners, and none of which are mentioned.

The DWP's fluffy, non-threatening monster might disturb civil service bed-wetters into action, but not your average small business employer."

But Standard Life head of pensions strategy Jamie Jenkins is more positive about the campaign.

He says: "I find it quite odd that people immediately criticise the Government for trying to do something positive. There will always be critics and people who oppose it, but it's attention-grabbing and inclusive. It has generated a lot of conversation."

Master Adviser partner Roy Mcloughlin adds: "I don't really care about the format - if it resonates, it works. Advertising execs will tell you many successful adverts work due to humour.

"It could become very catchy, so it deserves a chance to work. It's not a waste of money at all."

Cervello Financial Planning director Chris Daems says the £8.5m spend can be justified in the context of the 1.8 million employers set to hit their staging dates between now and 2018. He adds: "It's simple and makes the message about not engaging quite clear, but it has also caused controversy on social media. Hopefully that engages people even more and raises awareness of the campaign."

EXPERT VIEW



LUCIAN CAMP

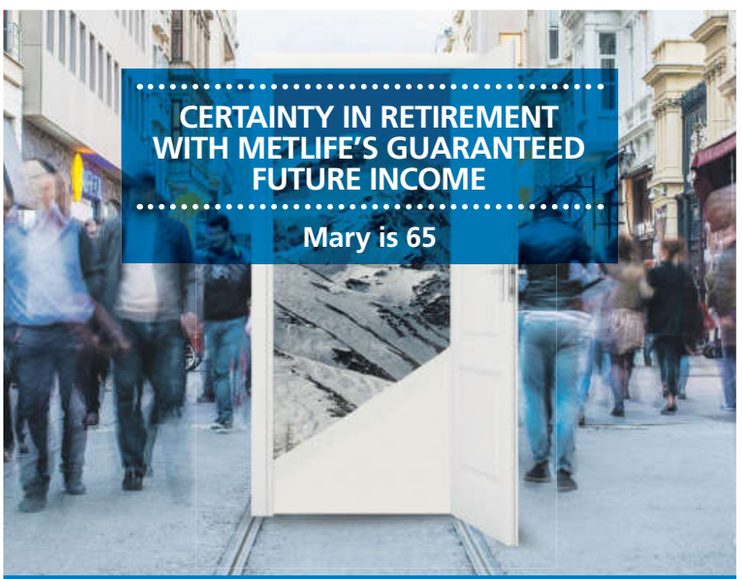
Right message, wrong context

At this stage in the process, the Department for Work and Pensions is right to build some awareness of auto-enrolment among employers and employees in small businesses, and the message in the TV commercial - do not ignore it - is the right one.

In terms of execution, though, in a low-interest category like financial services, it is dangerous to produce communications that depend entirely on a fairly busy and not massively inspiring soundtrack to tell their story.

An awful lot of people who see this will be left with some awareness of a large and amusing creature - the monster in the park, rather than the elephant in the room - but will not have much of a clue what he is actually advertising. I assume the commercial will connect to a whole load of other elements in an integrated campaign, all featuring Workie, and that will help. But it would be better if the commercial told its story in a more powerful and effective way.

Lucian Camp is founder of Lucian Camp Consulting



Mary is 65 and has built up a pension pot of £100,000. She intends to retire in a few years and wants certainty and flexibility from her finances and to know how much income she can expect to receive.

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2015/1106

REGULATION

SPOTLIGHT ON REGULATION



CHRIS HANNANT

Supply or demand?

The Financial Advice Market Review is a big opportunity to get the right framework to enable people to get the financial help they need. We have met with the review team, the responsible minister and FCA acting chief executive Tracey McDermott to discuss what needs to change.

We have debated with members whether it is a demand or a supply issue. The answer depends on who you are talking about.

Research from Citizens Advice recognises three potential types of advice gap. The first is the 5.4 million people wanting advice but unwilling to pay the prevailing market rate; then there are the 14.5 million people who want advice but cannot afford to pay for it; and finally there are the 10 million who are unaware advice exists, or where to get it. This highlights the fact there is no single solution to ensuring affordable help for all.

Many in the mass-market space (which will tend to coincide with the latter two groups) have limited or no savings. They need advice on issues such as debt, mortgages, insurance and protection. They are not typical financial advice clients. These people need help that would not necessarily be regulated: to manage debts, increase saving and ensure some protection against financial shocks. This is what the Money Advice Service was set up to do. In part, the challenge is connecting these people with the support that already exists - but there may be alternatives (such as through the workplace) that could also help.

Where there are willing customers and potential supply, there should be remedies to address the market failure. There is scope to reduce costs but not standards and get the market operating more efficiently. We have submitted an initial response to the review and are considering further steps that could help. If the regulatory cost of delivering advice were reduced, more people would be able to access it at a price they are willing to pay. Citizens Advice identifies 5.4 million people in this group - enabling just half of them to access an adviser would be a huge step forward.

Chris Hannant is director general at Apfa

ADVICE

FSCS review to centre on advice costs

Chairman admits FCA must pay more attention to the impact of FSCS levies on advisers

MARK SANDS

The FCA has pledged to put advice costs at the centre of its forthcoming review of the Financial Services Compensation Scheme.

Investment advisers will contribute £116m towards the 2015/16 FSCS levy, while life and pensions advisers will pay £100m. The total levy has been set at £319m.

Addressing the Treasury committee last week, FCA chairman John Griffith-Jones admitted the regulator needs to pay more attention to the impact FSCS levies have on advisers when it analyses the structure of the scheme's funding.

A reassessment of the FSCS will take place after the Financial Advice Market Review, he said. "When we do our review of the FSCS, we need to concentrate much more on the fairness of it among IFAs than perhaps was the case last time around, when the attention was on what happens if the banks can't afford their bucket, rather than the IFAs.

"It needs to come after the FAMR work, but we need to concentrate a bit harder on the impact on IFAs."

Griffith-Jones also said increases in the regulator's fees had been driven by recruitment to allow it to take on additional responsibilities in competition, payment systems and consumer credit. On average, FCA fees increased by 7.9 per cent in the last review.

However, Griffith-Jones admitted such rises are unsustainable.

He said: "Do I accept that we can't go on increasing fees at 7.9 per cent? Clearly, because at some point the equation ceases to work."

Acting FCA chief executive Tracey McDermott said the regulator is concerned about the "lumpy and unpredictable" nature of FSCS levies and pledged a fundamental review of the way the payments are structured.

She said: "[We will] look at how that liability is paid for because obviously you pay for the FSCS when you are paying for firms that have gone out of business having missold to their clients.

"So the good guys are paying for the problems caused by the bad guys, and we are going to look at that."

We will need to concentrate much more on the fairness of it among IFAs



At 65, Emily is a cautious investor but is looking to make her £50,000 savings work harder. She wants to provide her two grandchildren with a University education, so needs both growth and protection from market falls.

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Investment insight

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STEPHANIE FLANDERS



The questions holding back returns

Uncertainty over rate rises is among the issues obscuring market forecasts

There have been plenty of bumps in financial markets over the past few months and, even with recent rallies, many portfolios show flat or negative returns since the start of the year.

Understandably, investors have started to question whether the core assumptions that have guided their portfolios in the past few years will continue to hold in the future.

It is not time for a fundamental rethink quite yet but there are some key questions hanging over the markets.

The first is whether China and emerging markets will sink the global recovery. Emerging economies are faced with three big challenges: slowing domestic demand; flat or falling world trade; and declining commodity prices.

Some countries are in a stronger position to cope with these difficulties than others. For China, the situation is especially mixed, with the traditional, industrial side of the economy in hard landing territory but the increasingly important services sector showing more resilience.

Should we worry this trouble will spill over into developed markets? Troubles in emerging markets will pull down global growth and inflation, and make life more complicated for the US central bank, but they should not derail the moderate economic recovery underway in the developed world.

The second question is whether recent market falls mark a temporary correction or the start of a full-blown bear market. Corrections are normal and happen most years in equity markets. It is partly to compensate for these market bumps that equities earn higher long-term returns. Historically, it has taken either a recession or extreme market valuations to trigger a true bear market, where equity prices fall by more than 20 per cent.

Though the picture is weaker than it was a few months ago, we do not see the ingredients for a recession in the developed world in the near future. A recession caused by excessive central bank tightening or a big rise in commodity prices seems particularly unlikely, given recent falls in inflation and commodity markets. Nor do we think extreme valuations are about to cause a problem – rather the opposite, given recent sell-offs. Standard valuation measures suggest the US, UK and Europe are all close to their long-term average values. The S&P 500 is a little below it.

The third question is whether the US Federal Reserve or the Bank of England will ever raise interest rates. The Fed likes to think it is being communicative. However, that backfired in September when it held off raising rates and communicated a lot of confusion about how it would decide policy going forward.

Senior Fed policymakers have continued to speak of a rate rise by the end of the year but they have found plenty of reasons to delay in the past. There is no guarantee they will not find more, especially with a build-up in inventories raising warning signs about the short-term strength of US demand.

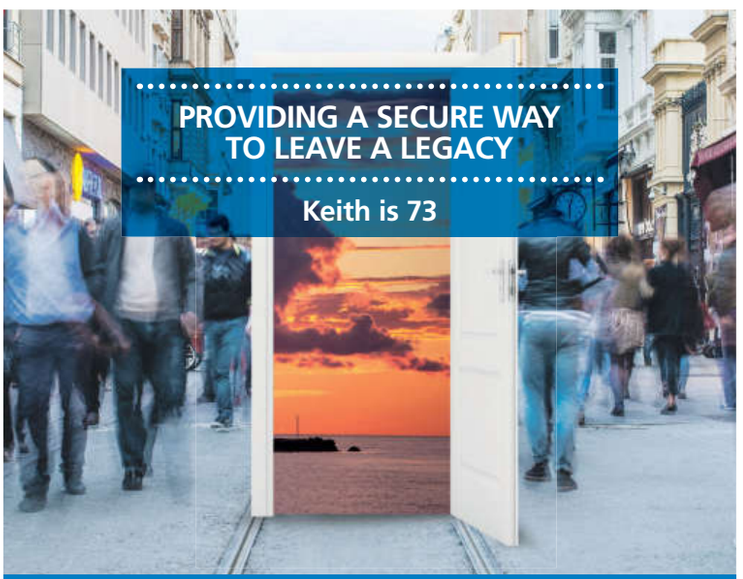
If the recovery in the US and Europe continues to look decent, we would expect the US and UK central banks to raise rates within the next six months – much earlier than the market currently predicts.

However, it is the pace of rate increases and the long-term "neutral" policy rate that are much more important to investors than the exact date of the first tightening move. Both are likely to be much lower than in past cycles.

And I am sorry to say the same message probably applies to future investor returns. Though we do not expect a full-blown bear market in the near future, we have reached the stage in the cycle when returns are likely to be lower and to come with larger amounts of volatility. That is especially true in a world that – for all the progress we have seen – is still struggling to deliver "normal" rates of growth and is finding it even more difficult to generate inflation.

Stephanie Flanders is chief market strategist for Europe at JP Morgan Asset Management





Keith is 73. He's widowed with three grown up children and receives an income from a defined benefit scheme. He wants flexible access to his personal pension of £125,000 and to pass on his savings to his children when he dies.

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Retirement insight

RICHARD PARKIN



Taxing times for pensions

Whatever the Government decides on pension tax relief, it must be focused on building trust and reducing complexity



The Government's consultation on pension tax relief has now closed and the industry waits with baited breath to find out what the Chancellor will do next. It seems almost inevitable we will see some changes as the spend is just too big to go untouched in the current climate.

What is clear is the decision is far from straightforward. Recent research we conducted to support our consultation response looked to understand how advisers and their clients might deal with any changes.

Most advisers told us, unsurprisingly, that the main driver for their clients saving into a pension is a desire to maintain their standard of living in retirement. However, over half also said tax relief was a significant factor. This contrasts with our consumer research, which showed tax relief generally affects where people save but has a lot less influence on how much they save.

Both our adviser and consumer research points to a very low level of public understanding around the details of pensions. With this in mind, it seems logical those clients who have the benefit of expert advice will place greater value on tax relief than the general population. Advised clients are, of course, also more likely to be higher rate taxpayers for whom the benefits of the current system are greatest.

Both advisers and consumers are agreed on the main barrier to retirement saving: a lack of trust of the pensions system

Another interesting contrast between our adviser and consumer research is the issue of complexity. Advisers feel complexity is a significant barrier to their clients' retirement saving, with 70 per cent of them rating this highly. Consumers tend to put this lower down the list after lack of access to pension savings or having other saving priorities. However, both advisers and consumers are agreed on the main barrier to retirement saving: a lack of trust of the pensions system. It seems the constant change to rules and previous pension disasters have left a very dim view of them as a savings vehicle.

This is salutary for policymakers and has to raise serious questions about the effectiveness of the taxed-exempt-exempt model that has been mooted as an alternative approach. Under such a system, contributions are made from taxed income but with the resulting benefits being tax-free. It seems the Government has a credibility problem persuading people tax-free would remain tax-free. However, putting aside any subjective biases, TEE would generate a significant pool of tax-free savings and the pressure on the government of the day to tap into this in the event of a crisis would be pretty overwhelming.

Getting people to save more for

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retirement has to be the greatest priority for the pensions industry and society in general. Whatever the Government chooses to do with tax relief, over three-quarters of our adviser audience believe keeping rules consistent over the long term is an important factor in encouraging more saving. Consistency would not only help restore confidence but would also reduce complexity as a barrier to saving.

Our research showed moving to TEE would have a significant impact on savings levels - at least among advised clients. Only a fifth of advisers state such a system would be simpler to explain, while only a third of clients agreed it would make things clearer to understand. Furthermore, three-quarters felt the lack of any tax at retirement would make it more likely people would spend their savings too quickly.

Even if TEE is not introduced, changing the existing system could reduce pension savings for advised clients. Nearly two-fifths of advisers said a move to a flat rate of 30 per cent would make them likely to recommend alternative solutions to clients while the complete removal of higher rate relief would push this up to three-fifths.

Over three-quarters of our adviser audience believe keeping rules consistent over the long term is a vital factor in encouraging more saving

Of course, most recognised the benefit of employer contributions but just under a half of them said they would recommend their clients reduce workplace savings to the minimum needed to qualify for the employer contribution if tax relief was reduced.

In summary, then, while it seems consumers have only a slim grasp on the detail of tax relief, its existence is important to long-term pension saving. Advisers will provide an objective assessment of benefits and will no doubt vote with their feet if the numbers do not stack up.

Getting to a workable solution will not be easy but the clear message is that whatever the Government does, it must be durable. Constant meddling with the system is the biggest barrier to consumer trust and this must be recognised if we are to solve the UK's looming retirement crisis.

Richard Parkin is head of retirement at Fidelity Worldwide Investment



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ANALYSIS

Ethical fund performance fails to draw UK investors

Ethical funds have delivered respectable returns but investors are still not convinced



PHILIP SCOTT

Investors who have aligned their principles with their portfolio choices over recent years have enjoyed firm gains against more conventional investment vehicles. So why do ethical funds continue to exist on the periphery of the market?

Good Money Week, formerly known as National Ethical Investment Week, ran from 18-24 October and once again put the sector in the spotlight.

Numbers from Moneyfacts and Lipper show over the past three years to 15 October the typical ethical/SRI fund has delivered a total return of 30 per cent versus 24 per cent from the average non-ethical portfolio.

Five-year numbers paint a similar picture, with the two styles giving respective returns of 40 per cent versus 34 per cent. Over the past 10 years, ethical funds fall back but only just, with an overall average of 78 per cent against an 83 per cent mean return from non-ethical vehicles.

The lack of cut-through for ethical investment is surprising when you look at other industries, where it is clear the public are willing to adjust their economic activity to reflect their values

But despite the respectable performance, ethical funds are failing to gain any serious traction among UK investors.

The UK's retail ethical investment industry has been around since 1984 when the Friends Provident Stewardship fund, the UK's first ethical unit trust, launched.

According to statistics from the Investment Association, in 2014 ethical funds witnessed their highest net retail sales since 2007 at £460m. But the IA's data also shows that three decades after their inception, funds now total £10bn of assets.

Tilney Bestinvest managing director Jason Hollands points out this represents only 1.2 per cent of total industry assets, a level it has remained stubbornly anchored at for the last decade.

He says: "The lack of cut-through for ethical investment over many years is really quite surprising when you look at other industries, where it is clear sections of the public are willing to adjust their economic activity to reflect their values.

"This is all the more disappointing given the relatively favourable investment climate for many ethical funds in recent years."

Given green and ethical funds are generally underweight the likes of oil and gas companies, many of which have seen their share prices tank in the face of tumbling commodity prices, the backdrop for the sector has arguably never been better. However, sustainable investment research specialists Eiris believe progress is being made on the back of growing consumer interest in issues such as climate change, poverty and human rights.

The group says there are now almost 100 green and ethical funds available to UK investors - whereas a decade ago there were just a couple of dozen.

It estimates the total money invested in the UK's green and ethical retail funds, including investment trusts and some pension-related products, is now more than £15bn, up from about £6bn 10 years ago. ▶



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Investment

ANALYSIS

WINNERS AND SPINNERS

FUNDS THAT DELIVERED SOLID PERFORMANCE WITH SOUND ETHICAL PRINCIPLES AND THOSE POTENTIALLY MISLEADING INVESTORS BY HAVING 'UNETHICAL' INVESTMENTS.

Fund size (£m)	WINNERS Fund	Performance 1 year	3 years	5years
£83.0	WHEB Sustainability fund	2.7%	32.7%	22.8%
£210.0	Alliance Trust Sustainable Future UK Growth fund	12.8%	46.9%	72.4%
£16.9	Premier ConBrio B.E.S.T. Income General fund	8.2%	33.9%	*
£31.4	Quilter Cheviot Climate Assets fund	1.1%	22.7%	36.2%
£315.6	Impax Environmental Markets Investment Trust	-4.4%	46.2%	30.5%
	FTSE All Share	**-3.8%**	**24.1%**	**43.5%**

Fund size (£m)	SPINNERS Fund	Performance 1 year	3 years	5years
£169.1	Aberdeen Ethical World Equity fund	-13.8%	2.1%	11.0%
£287.8	Legal and General Ethical Trust	6.6%	42.5%	64.8%
£33.2	Prudential Socially Responsible fund	-1.8%	28.9%	39.6%
£25.6	Sovereign Ethical fund	-4.4%	19.8%	40.9%
£60.8	Virgin Climate Change fund	-1.9%	28.7%	38.3%
	FTSE All Share	**-3.8%**	**24.1%**	**43.5%**

DATA TO 25 SEPTEMBER 2015. * FUND OPERATED UNDER DIFFERENT MANAGER

SOURCE: FE

Notably, fund analyst groups are allotting more space to the sector. In the summer, FE Analytics rolled out its inaugural recommended ethical funds list, while this month portfolio research site FundCalibre added a dedicated Responsible Investing sector.

Hollands believes the ethical investment industry needs to get to grips with a number of misconceptions to reach its full potential. He says: "There's a perception that ethical investing is aimed at a narrow section of the public who are ardent in their beliefs; is focused on niche areas, and is lightweight when it comes to delivering returns, none of which is necessarily true."

A quick look at some of the top holdings of many leading ethical funds shows most invest in well-known brands such as Vodafone, Lloyds Bank and Next.

But many advisers and fund selectors are backing ethical and green funds. Both Hollands and FundCalibre managing director Darius McDermott point to Standard Life UK Ethical, which has soared by 76 per cent over the past five years.

McDermott says: "This fund encapsulates the best ideas from the experienced team at Standard Life Investments, which manager Lesley Duncan uses alongside a 'no compromises' ethical screening."

Axa Wealth head of investing Adrian Lowcock tips the Jupiter Ecology fund, which invests in firms offering solutions to environmental problems, including water shortages and pollution.

Managed by Charlie Thomas since 2003, over five years the fund has achieved a total return of 33 per cent. Lowcock says: "Thomas has delivered a very good long-term performance and is highly experienced in the sector."

For his part Hargreaves Lansdown senior analyst Laith Khalaf backs Kames Ethical Equity, which boasts a five-year total return of 69 per cent. "The fund is managed by Audrey Ryan, who has a very good track record in this field. The outperformance has been boosted by its exposure to small and mid-caps but stock selection within that has also been strong."

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COMMENT



MEERA HEARNDEN

Volatility is here to stay

For the past couple of months, Greece and its problems have faded from the news and markets have focused on when - or indeed if - the US will raise interest rates. In the end, the Federal Reserve decided not to raise rates in September owing to uncertainty in emerging markets, China in particular.

In fact, September rounded off the worst quarter for global equity markets in around four years. The month was also characterised by increased volatility, with the Vix Index some 40 per cent higher, on average, than in July and August.

We have been warning for some time that volatility can be expected to rise as central banks in the US and UK approach the point of change in monetary policy. And while equity market moves have felt uncomfortable of late, the bond market deserves some attention too. Research from TD Securities shows the daily changes in 10-year treasury yields are the highest since 1975, suggesting the recent volatility in the US treasury market is unprecedented. Clearly, volatility is here to stay and is rising across most traditional asset classes.

Closer to home, the UK market has struggled somewhat in recent months despite a relatively strong economy and consumer spending power being at its highest for many years. The reason for this is it derives over 70 per cent of its earnings from overseas and has a high weighting to commodity-linked sectors, which means it is far from insulated from the troubles in the emerging world. On the other hand, domestically-oriented areas of the market have fared a little better.

In the US, markets sold off on the news the Fed was holding rates but rebounded slightly after chairman Janet Yellen reiterated the Federal Open Market Committee's expectation to increase them before the year is out. We still feel this is unlikely. Indeed, there is huge scope for policy error and one hopes the Fed will not look foolish in the fullness of time.

The emerging and Asia Pacific markets were the "best" performers in September, losing 1.58 per cent and 1.87 per cent respectively. Could this be an indication we have seen the worst of the bad news from China? Some areas of emerging markets look cheap relative to the rest of the world but the region faces a multitude of headwinds, which show no sign of abating for the time being.

What is interesting is equity markets have not yet retested their August lows. Whether this means the pullback has bottomed or not is difficult to tell. However, it does demonstrate the importance of holding a well-diversified portfolio during volatile markets, as when some asset classes fall in value others may post better returns.

Meera Hearnden is senior investment manager at Parmenion

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INVESTMENT

HSBC multi-assets well placed to tap in if Draghi restarts QE

Lead manager Davies keeps funds overweight in European equities as valuations look 'supportive'

VALENTINA ROMEO

HSBC's multi-asset funds are set to benefit if European Central Bank president Mario Draghi turns the money taps back on, according to HSBC senior portfolio manager Jane Davies.

Draghi has committed to re-examining the quantitative easing programme in December, giving a clear signal that it plans to begin printing money again, says Davies. QE has been held at €60bn since January.

Davies says: "The ECB was more doveish and cautious on the recovery of the European periphery in the latest central bank meeting. The bank is looking to see if it will extend and increase QE, as well as lowering interest rates further down the line.

"We think valuations are supportive and there are still policies in place to sustain the recovery in Europe."

Because of the "still accommodative" monetary policy in Europe, Davies, who leads portfolio management in HSBC's multi-asset team, will remain overweight on European equities. She is also positive on valuations in Japan.

In the Balanced portfolio, one of three funds in the recently launched Global Strategies range together with the Cautious and Dynamic portfolios, European and Japanese stocks represent 10.2 per cent and 5 per cent of equity exposure respectively.

Davies says: "Europe in particular is trading at valuation discounts compared with US equities, for example. Corporate earnings look good and there is more scope for recovery."

The multi-asset fund maintains a diversified asset allocation, mostly investing through passives to keep fund fees low, Davies explains.

HSBC recently cut the cost of some of its index trackers by more than half. Fees have been cut in the American and European index funds, which make up 22.17 per cent and 8.84 per cent of the top 10 holdings of the Balanced fund respectively.

In the Balanced fund, which has collected more than £13m since it started trading in mid-October, the management team is taking "more risk" in credit by overweighting corporate bonds, which make up 29 per cent of the portfolio.

At the same time Davies says the fund will remain underweight government bonds, which are currently 5 per cent of the fund. She says: "We are underweight in duration because of poor valuation in developed government bonds, even though the recent market volatility was a bear time for the bond market."

Davies says the third quarter of this year has also been a "very difficult" period for emerging market equities.

Although these "idiosyncratic macro risks" and mixed fundamentals originate in emerging market countries, the fund has maintained a 6.7 per cent weighting to the region.

Davies says: "We see some regions struggling, like Latin America - particularly Brazil - but other regions have very attractive value stocks, such as in some parts of Asia. The volatility reinforces the importance of diversification but we don't think the data is as negative as people think. The market has overreacted in relation to the underlying factors."

For Davies, however, a clearer risk to the positions of the multi-asset funds comes from a possible further tightening of US monetary policy.

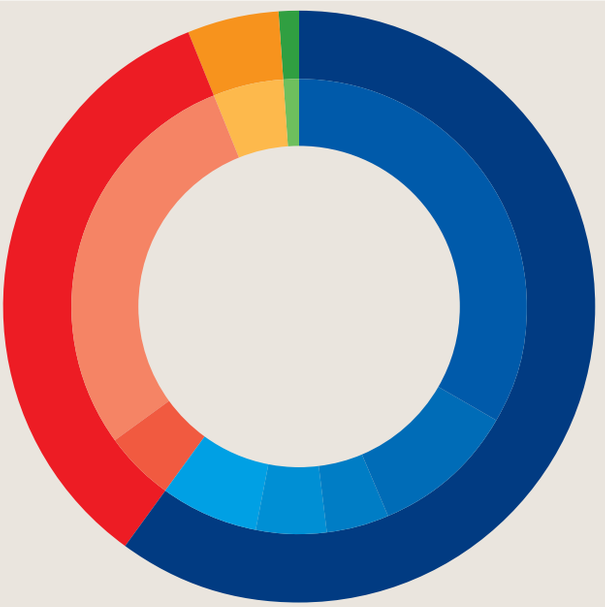
She says: "We have been underweight US equities since May. What would concern us more is a further tightening monetary policy and that would be negative for equities.

"However, the timing of the interest rates hike is not as important as the trajectory the rate rise might have."



Europe is trading at valuation discounts compared with US equities, for example. Corporate earnings look good and there is more scope for recovery

HSBC GLOBAL STRATEGY BALANCED FUND



Global Equity	**60.00%**
US Equity	33.60%
Euro Equity	10.20%
UK Equity	4.50%
Japan Equity	5.00%
GEM Equity	6.70%
Fixed Income	**34.00%**
Global Government Bonds	5.00%
Global Corporate Bonds	29.00%
Alternatives	**5.00%**
Property	5.00%
Liquidity	**1.0%**
Cash	1.00%

SOURCE: HSBC GLOBAL ASSET MANAGEMENT

TOP 10 HOLDINGS

HSBC American Index fund	22.17%
Ishares $ Corporate Bond Ucits ETF	15.81%
Ishares Markit Iboxx USD High Yield Capped	9.77%
HSBC European Index	8.84%
HSBC Japan Index fund	6.14%
HSBC Pacific Index fund	5.06%
IShares II PLC JP Morgan Emerging Markets Bond	4.98%
IShares Euro Corporate Bond Large Cap Ucits ETF	4.93%
HSBC FTSE Epra/Nareit Dev Ucits ETF	4.92%
SSGA SPDR Barclays Capital Emerging Markets Local Bond Ucits	3.78%

SOURCE: FE



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Independent thinking

NIC CICUTTI

Hannant's knee-jerk reply to Which? report does his members no favours

Apfa chief could have acknowledged issues and given reasons for lack of online charges disclosure

OK, here's a small trade secret for any budding scribes out there. If you want to write a column for *Money Marketing*, there are several distinct phases that help determine what finally appears on the printed page, or on the *MM* website.

The first is finding a subject with enough meat on it for a decent discussion. The second is coming up with a line of argument, marshalling any available facts and figures that may help the discussion flow. Third is finding the words to write the piece.

To be honest, it is the first part that is by far the hardest. Quite often, you will wonder whether a subject is even worth bothering with.

Which is how I felt last week when reading *Money Marketing*'s story on research by the consumer group Which? to the effect that "of 500 advice firms' websites, 70 per cent do not publish their charges online".

Apparently, of 206 firms contacted by phone, 31 per cent provided a rough idea of fees, but 12 per cent refused to divulge costs.

Now, of course, we do not know precisely who the Which? researchers spoke to at each firm, what they asked and exactly what the firm's response was. We are being asked to take the consumer group's evidence at face value.

But on the whole, that sounded to me like a wholly unexceptionable report, more of a statement of the bleeding obvious than anything staggeringly new.

And while I expected a mildly unenthusiastic response from advisers, my initial take was that the omission of charges on a firm's website was more to do with that old-fashioned feeling about discussing financial matters in a public arena than any deliberate decision to conceal information.

And then I read Apfa director general Chris Hannant's response, in which he accused Which? of creating a climate of fear and "damaging consumers' interests just for the sake of the headline". He added: "The message you take away from the press release is you shouldn't go to an adviser because it's all a bit murky."

There I was thinking that Which?, a body that has always supported the concept of independent financial advice, was trying to make a fairly obvious point about opacity and disclosure. Not as far as Hannant is concerned.

In his world, if consumers really want to know how much a specific piece of work might cost them they can make an appointment with a firm and find out at a face-to-face meeting.

This sounds fine, until you apply the same principle to buying a bedroom suite. So, you go on a website, look up beds and mattresses, bedside tables, wardrobes and chests of drawers, make a list of what you want and then take it to the store to be priced up. And even then, only by appointment.

Or you go down a supermarket aisle and fill your trolley, with the prices only being made known to you after everything has been scanned through the till.

In fairness to Hannant, he knows this. At the end of his diatribe against Which? he makes the same analogy about "walking into a shop without prices" and concedes that approaching an adviser "without any idea of what it will cost can be intimidating".

But there is no sense of a real meeting of minds there, only a hostile knee-jerk reaction to a nondescript report by Which? that merely calls for a very basic level of charges disclosure be supplied by advisers on their websites.

Which brings me to a final point. Over the past few weeks, *Money Marketing* has rightly focused on the issue of where trade bodies are heading, specially in the wake of events at the Investment Association, but also elsewhere.

In Hannant's world, if consumers want to know how much a specific piece of work might cost them they can make an appointment and find out at a face-to-face meeting



Unlike a trade union, the ultimate sanction of a withdrawal of labour is rarely if ever available to a trade body member. For the most part, the way to achieve an objective is a combination of lobbying and the use of alliances with others to help shape a commonly agreed outcome.

In this instance, for example, another hypothetical option for Hannant might have been to acknowledge there are indeed issues with charges information on some advisers' websites.

He could then have advanced some perfectly valid reasons why this might be the case – for example, the difficulty of estimating a precise charge for work that is largely unknown until it is fully assessed and discussed.

Hannant could then have committed Apfa to working with Which? to create a voluntary model whereby such disclosure might best be achieved.

Instead, we got an entirely predictable negative response from Apfa. While it probably made the more Neanderthal sections of its membership happy, it did little or nothing to support the growing number of advisers – some of whom are also Apfa members – who believe being transparent with potential customers is the way forward for any business.

Especially a business that, after all, is itself supposed to be looking after a client's money – while promoting itself on the internet, the most global of all shop windows.

Ironically, what Hannant also forgets is his reaction to a very basic issue will stay on the internet for ever, viewable by any consumer who wants to find out about charges disclosure. Another fantastic advert for his members.

Nic Cicutti can be contacted at nic@inspiredmoney.co.uk
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ROBERT REID



Follow that cab and learn about change

Now, unless you have been living in a vacuum you will have noticed there is a battle going on in the world of taxis. Originally, the changes focused on alternative methods of locating and hailing cabs using smartphone apps, but that position is constantly evolving and we are now seeing services that offer opportunities such as ride sharing too.

There has, understandably, been a lot of protest from traditional cab operators but, despite this, expansion of such services continues unabated worldwide.

I see a lot of parallels between this evolution and what is going on in our own sector. Financial services needs to learn from the mistakes made by the cab operators and avoid their failed strategy of adopting a highly entrenched position in a vain attempt to block changes.

Consumer needs are changing fast thanks to the speed of communication via social media. Any seismic shifts in approach do not come cheap and this could prove to be the barrier to many, quite apart from an unwillingness to change. Some will argue that small independent firms are at the biggest disadvantage - unless, of course, they take the step of partnering with networks or other organisations that allow collective use of technology.

Change through disruption is now the default method of entry to any sector by new business models. Indeed, some describe what is happening in both the taxi and financial services markets as unstoppable.

We all have to live with change. Just because we have been doing something one way for a long time does not make it sacrosanct.

It could be argued financial advisers have a more specialised skill set than the typical taxi driver but the pressure on price and service is just as pronounced in our sector as it is in the world of the cab firm. As information becomes easier to obtain there is no doubt that proving your worth will require more than a flash website or brochure.

Advisers need to think about integration rather than confrontation

As the noise around robo-advice increases, advisers need to think about integration instead of confrontation and take advantage of the impressive tools now on offer.

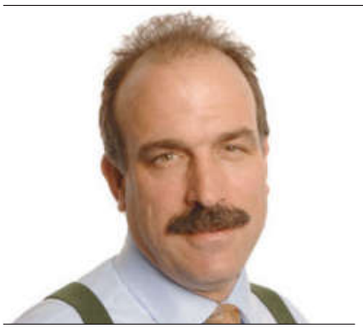
To deliver a truly valued experience it is essential to think beyond investments and consider how to really make people's lives that much better. Clients need a more personal message that focuses on their needs for life, rather than one that just looks at their money.

People like having things that are more understandable and more controllable. It makes it a lot easier for them to survive in the current world. And it is a lot easier for people to track that experience against services than against portfolio performance.

Change brings opportunity. If the cab companies had focused on investing in change and not in trying to stop it they could have possibly come out on top. Instead, their market is changing at a speed in spite of them. That is hugely regrettable and something that we in financial services have to avoid.

Robert Reid is director of The Ideas Lab

TOM BAIGRIE



How to be a protection force for good

What do you call a group of protection intermediaries? Many Advisers For Independent Advice has a certain ring to it as an acronym but one should include non-advisers, and the tied, too - especially as some now do all three versions of intermediation.

If only we could be as achingly cool as the team that invented the wonderfully grounded, conservative sounding FAMR to counter the unintended consequences of the catchy but Rather Dangerously Radical RDR.

Perhaps best not start with the name but with what the aims of this association of protection intermediaries might be.

First, it is not a trade body that is needed. Trade bodies serve the trade, not the consumer, so the Government, media and consumers themselves view them with a jaundiced eye nowadays. In the search for influence, the trade body must therefore take a consumerist tone, and that soon infuriates its members. Exposed underlying contradictions of trying to serve two masters and resignations of the amazingly well paid follow swiftly on.

Let's also be clear I am not talking about a professional body either. Intermediation in protection only approaches a profession when complex independent advice is given.

No, what we all seek to do is sell insurance properly. Insurance is good stuff that helps people when life hurts them most, so we have lots to be proud of - but we are not a profession, even when doing our job very professionally.

So although I am still not sure what you call it, I do see the only purpose of "associating" those doing this same thing, albeit in different ways, should be to improve what they sell. A group that interacts with consumers every day is brilliantly positioned to guide manufacturers and regulators on how our market can serve more consumers better.

And while in the past there have simply been too few specialists for an association to mean much, nowadays there are many firms that focus intensely on protection. And whether advised or non-advised, tied or whole-of-market, we can all see many things that need to change.

My colleague Emma Thomson routinely highlights in these pages where product and service to consumers can be improved. In the end, the issue is always it is the manufacturers who must make the change. And they are sensibly reluctant to incur that cost if they cannot see a consensus of their intermediary customers that proves to them change would improve their market position.

The result is sometimes a sort of race to the bottom in terms of quality and price, which certainly does not serve consumers best - or indeed intermediaries either.

The point of this association should be to achieve intermediary consensus on the many areas where consumers' interests align with our own, and then use that consensus to persuade the product manufacturers that making improvements will win them business and consumers. Having that as a clear aim would make the association undeniably a force for good in protection.

Tom Baigrie is chief executive of LifeSearch

What advisers are saying

ON THE WEB

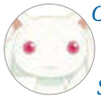
This is a small selection of the debate taking place online at moneymarketing.co.uk

We also like to receive letters to the editor, which can be sent to natalie.holt@centaur.co.uk or 79 Wells Street, London, W1T 3QN



Comment related to article: Standard Life 'sailing close to wind' on investment advice

The reality is the intent of the letter is probably spot-on. Our data suggests 67 per cent of former advised annuity assets are going to drawdown. Customers invested in a fund targeted to an annuity purchase may not be getting the best outcome. Clarity from the regulator on this will be welcome. Keeping clients invested in a default that is gliding investors to an annuity is the low-risk option for the provider but is not in the client's best interest.
Heather Hopkins



Comment related to article: Advisers slam DWP's £8.5m 'Sesame Street' ad campaign

The obsession in adland at the moment is to create the next 'Meerkat': a cutesy mascot that children will pester their parents to buy and will then sit on shelves throughout the land, providing the company with free advertising. Hence Go Compare's annoying robot. Obviously this has nowt to do with auto-enrolment because no one is going to pester their parent to auto-enrol their employees so they can get a cheap imitation of Sulley from Monsters Inc. But this is why if you chuck £8m at a bunch of London creatives, they suggest basing the advert around a cuddly toy. The fact that it does nothing to promote auto-enrolment is irrelevant, the point is it is 'so now'. Creative industry types are the least imaginative people on earth.
Sascha Klauss

EDITOR'S COMMENT OF THE WEEK



Advice isn't like a shop with no prices

So Which? is claiming two-thirds of advisers do not provide charges information online.

The majority of accountants and solicitors do not publish their fees online because it depends on what work needs to be done. It cannot be compared with walking into a shop with no prices because consumers are not buying a product.

The advice service depends on the complexity of clients' needs. At best a rough estimate can be provided – for example, an initial charge of up to 3 per cent. The actual charge is not given until the fact-find is completed face-to-face and the level of work to be done has been agreed.

Which? is focusing on the wrong issue. Advice costs are not usually a problem once the client understands what the value is. The issue Which? should be dealing with is educating the public about the value behind independent advice and the benefits of using an adviser.
Ricky C

ADVISERS



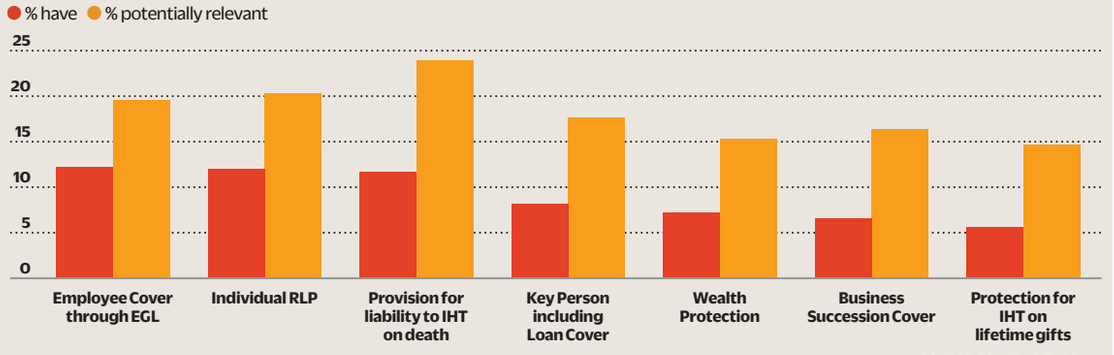
PHIL WICKENDEN

Innovation is the new black

"If you come in tomorrow wearing a tunic and sporting a Lache Tache, there will be great trouble." Rebecca, one of our super research executives, is very clear about where she stands on the latest trends sweeping Shoreditch. She has also tutted her disapproval at more than one of my sartorial choices over the past year. However, she draws the line at Hoxton's latest: T-shirts that flirt dangerously with the knee and false eyelashes with the ends snipped off, adhering to the centre of the lower lash-line, resembling a sort of moustache for the eyes. I hasten to add that neither "innovation" is remotely for me. Rebecca's archly raised brow silently but strongly doubted by my conviction.

If, though, innovation is to ever succeed, it must first be free to fail.

Q: WHAT % OF YOUR CLIENTS CURRENTLY HAVE EACH OF THE FOLLOWING TYPES OF PROTECTION? AND WHAT % OF YOUR CLIENTS WOULD YOU SAY EACH SHOULD BE RELEVANT FOR? (MEAN)



SOURCE: SO HERE'S THE PLAN

Your two cents worth?

We've had 500 adviser comments on our website in the past month @moneymarketing.co.uk



Comment related to article: FCA targets drawdown in advice due diligence review

Someone will have to carry the blame somewhere down the line for poor outcomes from pension freedoms and we are being lined up to take that fall for everyone.

What is sufficient or good due diligence? We have asked many times, especially after Keydata and Arch cru, yet we never actually get an answer.

It will not matter that a consumer arranged their own drawdown after taking guidance because when the train wreck happens, the reporting will state advised.

Martin Evans



Comment related to article: Seal of disapproval: The new rules that treat advisers like banks

Banks have entered into an arms race with regulators from which there is no way back and from which no one wins. Fear abounds and costs rocket. The regulatory burden is already onerous and the costs in accessing advice too often prohibitive.

IFAs have not become feral and hostile in the way banks have. There are always some bad apples and it is the regulator's role to identify and police them.

It is in no one's interest – especially society at large – to escalate this unnecessarily and so create a kind of Stasi-like statelet which is doomed to fail. It would be better to expect good behaviour and hold to account those who stray.

Barry James



It would be easier to swallow if the same standards and regime were applied to senior managers at the regulator. It might engender a bit of trust, which is currently lacking.

As a senior manager at a medium-sized firm that strives to get things right in both deed and attitude, I do not feel safe. I am not alone and that is a sad indictment of the current regulatory regime's approach to firms. If you think about how good firms and individuals respond to this, it is bad for business and does no one any good, least of all clients.

Grey Area



Comment related to article: MM leader: How can advisers deliver what the FCA cannot?

I already have 100 per cent accountability for my firm, as I suspect do the vast majority of IFA owners. What we do not need is even more form filling and cost to prove it. I know I am not alone in feeling that financial regulation is out of control and the Treasury is not helping to control it.

Nick Bamford

It is interesting to note in the three years that have passed since our last research foray into the world of high-net-worth individuals and business protection, there have been innumerable pension, investment and tax changes that have fundamentally impacted financial planning decision-making. However, there has been little in any of these changes that has affected the need for protections such as inheritance tax related cover, business assurance, employee cover and wealth protection.

What these changes have clearly done, though, is to increase further the (understandable) distraction from consideration of protection and therefore reduce its perceived importance as part of the financial plan.

The complexity of many of the changes and the resulting need among advisers and consumers to devote even more time and effort to understanding them, and what to do about them, has not helped protection to secure more airtime.

The contradictions we see within the industry with regard to protection are nothing but consistent: undoubtedly seen as a cornerstone of financial planning but with business levels way below where they should be.

However, we believe that, while understandable, the resulting lack of "protection action", and hence sub-optimal client outcomes, is unacceptable.

For all of the markets listed in the graph (subject to the product being economically acceptable and the process to completion being smooth) there is a real opportunity for providers to engage more proactively with advisers to jointly develop the market through effective disturbance and solution creation. Innovation of a different kind.

Phil Wickenden is managing director of So Here's The Plan

AT THE COAL FACE



SCOTT GALLACHER

Honour client trust if you sell your business

A retiring IFA recently sold his practice to a well-known national wealth manager. When it started undertaking its reviews of clients' planning, one client was surprised enough to seek me out. I undertook my own review and concluded although his Isas and pensions (£450,000 overall) should be updated and refreshed, the basic structure was perfectly sound, flexible and appropriate: certainly no need for big changes or costs.

The incoming adviser, however, had different ideas. To start with, everything was to be moved to its preferred platform. I use various platforms but, in this case, I did not see how the change benefited the client. Next, the whole portfolio was to go into just one relatively untested fund. A good multi-asset, multi-manager fund can give a decent spread but diversification should mean more. One fund is still the creation of one investment committee.

But what really made the client's eyebrows hit the ceiling were the charges: £500 for the review, £13,500 (3 per cent) for making the changes and then £4,500 (1 per cent) a year from then on. If you are going to charge a first-year fee of £18,000, you had better be delivering some truly world-class benefits. However, with very few discernible benefits in the advice, my dismaying conclusion was that, once again, a client was simply being taken advantage of.

But there is another intriguing point. Adviser firms typically sell for three times the annual income, so on £450,000 (assuming historic trail of 0.5 per cent) the retiring IFA might receive £6,750 for this client.

Presumably the IFA knew what was going to happen to his clients and so the question arises: if he thought it was acceptable for his clients to pay such high fees for these changes, why did he not do it himself? Not only would he double his £6,750 to an impressive £13,500 but he would also double his yearly earnings.

But he did not. Instead, he sold out in the knowledge the new owners would immediately scoop up £2 for every £1 he received. That means once they have paid the outgoing IFA his £1, the new owners have effectively been handed a free business. Why would any financially literate business owner do that?

My suspicion is that, like me, he did not really believe it was justified to exploit his clients like this and that is why he had never done it himself. The fact he then allowed it to happen under the new advisers could be for many reasons. Perhaps he had no other choice financially; perhaps he was pressed by family problems or ill-health. We will probably never know.

Balancing ethics with commercial realism is easier said than done but we owe it to clients

But we do know that being an IFA is all about trust and when we come to pass over the reins, we should honour the client's trust by taking just as much care as we have done at every other stage.

I know balancing ethical duties and commercial realism is easier said than done but, at the very least, we owe it to our clients to pass them to somebody we trust in turn. Hopefully, that will be somewhere they will not be hurried into an entirely new model involving major costs. At least that way they would have breathing space to take stock.

Scott Gallacher is director of Rowley Turton

Do you agree with Scott's views? Join the debate @moneymarketing.co.uk

Profile

STEPHEN GAZARD

‘We have to do a better job of promoting what we do day-in and day-out’

Sesame Bankhall’s managing director on drawing a line in the sand after a turbulent few months

MARK SANDS

Sesame Bankhall Group boss Stephen Gazard is determined to look forward. After guiding the business through a turbulent restructure that saw Sesame’s investment network shuttered, with advisers told to move to the firm’s directly authorised Bankhall option or relocate elsewhere, it is perhaps not surprising.

Gazard admits parts of the firm’s journey since his arrival in 2013 have been difficult but he says SBG saw this summer as a clean break.

Indeed, he declines questions on whether SBG was sufficiently aware of its own strengths and weaknesses – “Pass. I wasn’t here” – and sidesteps when asked at what point it became apparent the investment business would have to go.

“The history and the legacy of the strategic review have been well covered by people like John [Cowan, SBG executive chairman],” he says. “The reality is that we have been through that process and we are now at the end of it. August and September were a line in the sand for us, and it’s time to drive the business forward.

“It has been a painful journey on occasions but it’s something we have, as a team, faced head on. We’re now looking at the future.”

Speaking to *Money Marketing* just days after the Institute of Financial Planning’s annual conference in Newport, Gazard says his focus is now on engaging with the industry on the offerings of Bankhall, PMS and Sesame’s mortgage network.

Bankhall in particular, he says, is a business that has not been “shouted from the rooftops in any shape or form in the past”. However, he highlights the fact it represents the biggest population of advisers SBG serves, even when it had an investment network.

“If we launch a proposition on that side of the business, it affects more of the UK financial services population than anything else we could do. We’re really excited about Bankhall and are launching a whole series of initiatives over the next three to six months, beginning with the partnership with Distribution Technology,” he says.

It all comes back to ensuring we are running the right type of adviser forums and one-on-ones with firms, as well as the right training and development support

He maintains, nonetheless, that his focus will be shared across the entire SBG business, with more work expected on all fronts. In particular, Gazard faces a mortgage division without a leader following the departures of John Cupis and then his successor Lisa Martin.

A recent restructure gave Gazard responsibility for the business but former managing director Cupis is to join Openwork, while Martin, whose appointment as Cupis’ replacement was announced at the start of September, will head to LSL.

“They have been instrumental in building the business, but no business – and certainly not this one – is reliant on one or two individuals,” Gazard says.

“The key thing for us is to analyse where the gaps are, talk to the current team about whether anyone wants an opportunity to step up, and then we’ll go out to market and get the relevant people for the relevant roles. What we’re not going to do is make any knee-jerk reactions. We’re going to take this opportunity to step back, engage with the stakeholders and ask, now that we are in a unique position of having come through that review, where are the gaps now?”

The mortgage network has also come under scrutiny, with one Sesame member writing to *Money Marketing*’s sister publication, *Mortgage Strategy*, to question the value of a network model.

Gazard says the firm needs to be



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FIVE QUESTIONS

What is the best advice you've received in your career?
Never be fearful of recruiting people better than you. Surround yourself with better people and don't be afraid to promote on attitude rather than skill.

What has had the most significant impact on financial advice in the last year?
The phenomenal increases in regulatory costs, which will drive many out of business and further reduce access to quality advice.

What keeps you awake at night?
Clearing my inbox but sleep is over-rated.

If I was in charge of the FCA for a day I would...
Explore real long-stop opportunities. Too many quality individuals are leaving the profession in fear.

Any advice for new advisers?
Time with clients is key. Concentrate on that and delegate the rest.

CV

2013-present: Managing director, Sesame Bankhall Group
2011-present: Vice chair, Meningitis Now
2013-present: Council member, Apfa
February 2013-June 2013: Distribution director, Sesame Bankhall Group
2011-2013: Managing director, Lighthouse Advisory Services
2006-2013: Managing director, Falcon Group
1998-2006: IFA and director, Kilminster Group
1996-1998: Adviser, Prudential Private Financial Planning

much better at communication: "We have often seen with firms that go from a network to being directly authorised that there is an awakening in terms of all the stuff that was done behind the scenes. If you've been part of a network for a long time, you perhaps do not see that because it becomes the norm.

"We have to do a better job of promoting what we do day-in and day-out. But that all comes back to engagement and ensuring we are running the right type of adviser forums, the right type of one-on-ones with firms and the right type of training and development support."

Meanwhile, Gazard is optimistic about support from SBG's new parent, Aviva, which took on the business as part of its deal for Friends Life. Friends Life previously put SBG up for sale in 2013 but Gazard is adamant he has the support of the Norwich firm after agreeing a three-year plan for development, which runs to 2018.

He says: "That is not to say things will not continue beyond that but the reality is we have put together a robust three-year plan. That is the bit we are committed to delivering and we have got support from Aviva to do so."

All this is a far cry from his beginnings as a businessman, when a teenaged Gazard started his own car valeting service, which he later sold off while studying at university. He then launched a business making accessories for satellite dishes and built and designed the first 3,000 in a garage, before a larger international operation took up the same idea.

"They basically said: 'You are two guys in a garage. Are you going to sue us?'" he laughs.

It is an example of a varied early career that also took in antiques, receiverships and an estate agency but ended when the 21-year-old Gazard sold a house to a man from the Pru, who returned later to recruit him.

After a few years, Gazard left to go independent, chafing under the management of a corporate entity after so long as an entrepreneur.

A devotee of management books, he says he believes in building teams around the attributes of individuals and it was this approach that saw him give up his advising permissions to focus on management after joining Falcon Group in 2006.

"I realised that while I was an okay adviser - and I enjoyed it - what I was actually more gifted for was facilitating others in the advising arena to do it much more efficiently and effectively."

Innovation

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IAN MCKENNA



New tech target practice

The explosion in staging employers presents advisers with an ideal target for new digital services

While most in the individual advice market are still trying to get to grips with what digital advice means for them, it appears many corporate firms have made a clear decision to embrace it. Automatic enrolment extending to small and micro businesses represents an excellent opportunity for all firms to incubate their digital advice propositions.

The Pensions Regulator recently identified there are 1.8 million small and micro employers reaching their staging dates between now and 2018: half a million more than previously estimated. With, at most, 30,000 individual advisers, this means there should be 60 potential clients for each and every one.

Employees who are being auto-enrolled represent an ideal target for new services. Equally, if a firm is going to build low-cost digital advice solutions, it is preferable to initially target these at new customers while they are getting used to working in a certain way.

The technology to support this is a natural development for adviser software suppliers. Intelliflo recently announced plans to deliver such a service early next year and it is reasonable to expect others to follow soon.

To take advantage of this opportunity it is clearly important advisers understand the key issues around auto-enrolment. As the number of staging employers explodes, pension providers are becoming increasingly selective about the cases they will accept.



Employees who are being auto-enrolled represent an ideal target for new services

TPR is regularly reiterating its position on how "professional advisers" should advise employers on scheme selection. This means it is not really practical for advisers to just select a single pension provider and send all auto-enrolment cases to that provider.

There is a widespread belief in certain quarters that because advice to employers on schemes is not FCA regulated, an adviser can just choose a single pension provider and recommend it to all their auto-enrolment clients. This is an oversimplification.

It fails to recognise a small but crucial requirement that, unless an adviser has conducted some form of research process (that is, recommends a single solution) they are required to tell the employer they have "recommended the specific provider but there may be another pension provider in the marketplace who may be more suited to their employees' needs".

If advisers have spent years emphasising to their clients the benefits of being able to help them choose the best products and providers for their needs, they are unlikely to want to say there may be better ones available they have not explored. Once you say that to a client, how soon will it be until they start questioning whether the same is true in other areas?

If, however, advisers go through a process comparing auto-enrolment providers, they do not have to make such a statement. Technology can play a powerful role here too.

There is also an opportunity for advisers to market their services to individual employees in smaller organisations. In the case of more senior staff, this may extend to traditional advice but most are going to need a low-cost solution to help them. This is an ideal opportunity for firms to put digital advice into practice.

Advisers looking to build such propositions must take advantage of being able to target the services at new customers and grow their business, rather than disrupting existing client relationships. The huge need for auto-enrolment advice gives advisers a chance to secure customers for digital advice business.

Ian McKenna is director of Finance & Technology Research Centre

GADGET OF THE FORTNIGHT

Plug and play drive for iOS devices

If you are an iPhone or iPad user, the chances are you love your device. But storage space is generally at a premium and the lack of any connectors other than the Lightning port can be a serious constraint. Of course, Apple would like you to keep everything on iCloud but if you want instant access to documents or just to store more pictures or music, the Leef iBridge is a very useful little device.

It is a USB drive that also has a Lightning connector so you can simply plug it into your Apple device or PC and move documents and files. With the app installed on your iOS device, it is literally plug and play. I had it backing up data in seconds. It comes in 16, 32, 64 and 128 GB versions, with prices on Amazon ranging between £44 and £144. It is not cheap but it is a very convenient device.

There are micro USB versions for Android devices that are, not surprisingly, about a third cheaper. That said, if you want really easy-to-use additional storage for your iOS device, it is a really nice piece of kit.

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PETER HAMILTON



Regulation needs drastic reform

The FCA regulates a huge swathe of the UK's economy and should be subject to the same scrutiny as the Treasury

In my last column I urged that the FCA should be properly accountable and the best way of achieving this was to bring it in-house, making it into a government department as part of the Treasury with its own minister, who would be responsive to public pressure and answerable to Parliament.

For those who doubt whether Parliament can effectively hold the Government to account, it is worth considering what is happening now over the Treasury's intention to cut tax credits in early 2016, so that even with the proposed increase to the national living wage, which will not be fully implemented until the end of this Parliament, most recipients of tax credits will be significantly poorer than they now are.

This has attracted considerable public, parliamentary, academic and media scrutiny, and demonstrates how Parliament, with others, can put pressure on the Government. Whatever one thinks about the merits of this particular issue – and who knows how it will end – it is clear there is pressure on the Treasury. That is how it should be in a parliamentary democracy.

The FCA regulates a huge swathe of the UK's economy and should be subject to the same scrutiny as the Treasury. It certainly should not be theoretically independent, but subject to considerable control by the Treasury. That needs reform.

Bringing about substantial reform at a national level is likely to be a slow and frustrating process. But it can be done. One has only to look at the dogged determination



of Baroness Lawrence's efforts to obtain justice arising out of the murder of her son more than 20 years ago. During that period she has fought to bring the murderers to justice and the police to account. Now, the National Crime Agency has been appointed to investigate allegations that corruption in the Metropolitan Police shielded the murderers of Stephen Lawrence. That is another significant step towards the uncovering of the full facts she seeks.

The financial services industry needs to agree on the top two or three aspects most in need of reform and coordinate a campaign to persuade MPs and peers to act. That is easier said than done, but if Baroness Lawrence could make headway in the face of odds that would have defeated a less determined person, it must be possible to do the same for financial services.

So what aspects of financial services regulation are most in need of reform? In my view, first is the need to change the status of the FCA from a so-called independent body into a government department with a minister responsible to Parliament.

The second is surely the Financial Ombudsman Service. For a start, it is unbalanced in favour of the consumer/complainant. The complainant pays nothing when he or she complains and is not bound by the FOS decision. But if it is accepted, the firm is bound to pay compensation up to £150,000. What is more, the FOS does not apply the law but decides complaints on the basis of what it considers to be fair and reasonable. There is no appeal.

Anthony Speaight QC and I have proposed the form of the FOS should be fundamentally changed. Very briefly, we propose all FOS cases be decided by the adjudicators, who already decide at least 93 per cent. The position of the ombudsman would be abolished. Instead, both the customer and the firm would be able to refer the adjudicator's decision to a new first tier tribunal. If the firm wished to refer the case, it would have to pay the amount awarded to be held by the tribunal, where it would be held pending a decision.

The case would be completely reheard, with examination and cross-examination of witnesses. English law would apply. Customers would not be exposed to a costs order against them. If a firm initiated a reference and lost, it would have to pay the customer's costs. The money saved by the abolition of the position of the ombudsman would be used to create a legal aid fund to help customers present their cases to the tribunal. Of course, the details would need to be worked through.

Finally, the way in which the system of regulation is financed needs to be changed. At a time when the Treasury is demanding the entire Government reduces its spending, it makes no sense for the FCA to be able to maintain or increase the fees exacted from the firms it regulates. If the FCA were a government department, its costs would be subject to the same scrutiny as all other departments.

Those changes are needed. It will take time to bring them about but if we do not start pushing for them now, they will never happen.

Peter Hamilton is a barrister specialising in financial services at 4 Pump Court and co-founder of moneymatterslegal.co.uk

COMPLIANCE TIP OF THE WEEK

State pension shortfall

There has been a lot of coverage over recent weeks relating to changes to the state pension, which are effective from April 2016. These changes are pertinent to those who are coming up to retirement and/or have been contracted out of the second state pension or state earnings-related pension scheme for part of their working life.

In these circumstances it is likely the individual may receive a state pension of less than the standard flat rate of £151.25. Details of the changes (and a handy calculator) are available from the Department for Work and Pensions.

Clearly, this has come as a surprise to many and is a matter that should be discussed during financial reviews. Individuals who may be affected should apply for a state pension statement, which will provide details of the level of state pension they can expect and show any shortfall that may be present based on their current National Insurance record. While it is possible to top-up contributions to achieve a full pension, this must be done through Voluntary NI contributions (Class 3), details of which are available from the DWP.

Liz Coyle is compliance policy manager at SimplyBiz Group

Workplace Savings Guide

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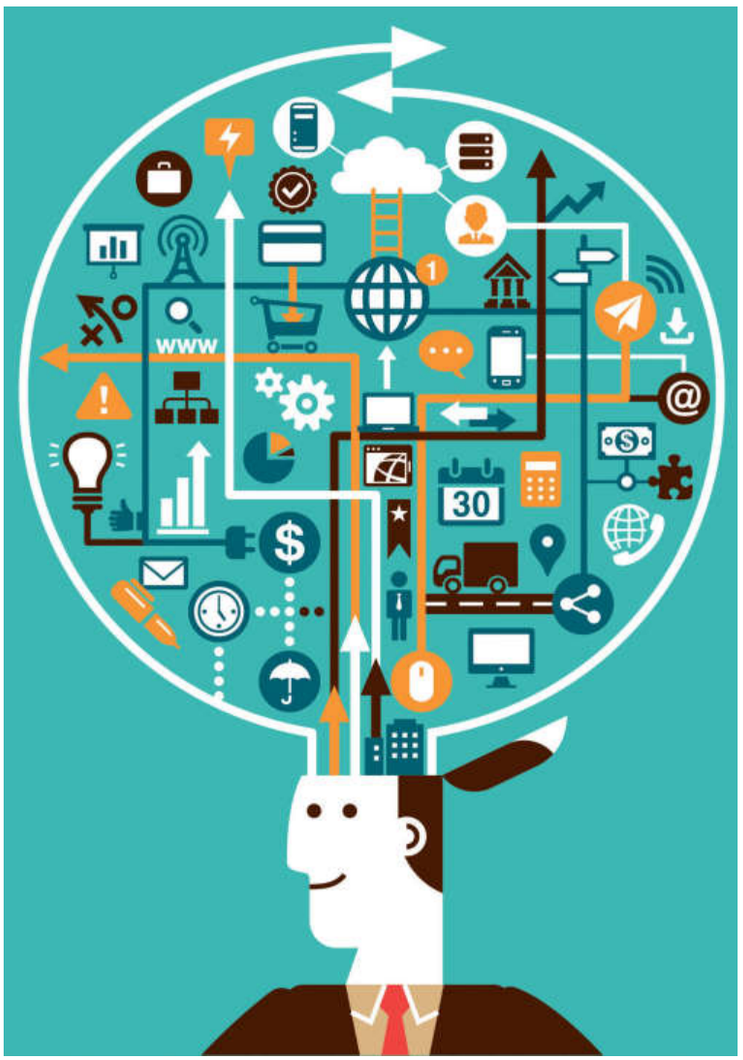
Cut through the noise

Great marketing is a necessity but if you feel yours is not up to scratch it could be down to one of the four reasons outlined

Marketing your services effectively is critical to attracting and retaining clients. If you feel your current marketing activities are not working as well as they should be, then it could be down to one of the following reasons:

1: Lack of commitment to sustained marketing efforts

So many small businesses follow a stop-start marketing effort. When leads are a bit thin on the ground, firms undertake short-term marketing pushes to generate more business. While they service the latest round of leads, they take their foot off the pedal on sustaining the marketing effort, with the result tending to be the leads dry up again. For marketing to be truly effective there needs to be a consistent and sustained plan of activity underpinned with the right resources, time and effort to execute the plan and follow-up leads.



2: Potential clients see no clear benefit

What problems do your services solve? Understanding what your clients actually need, want and value is critical. Client engagement with financial services is a continual challenge. Your service must deliver what people need in a way they find engaging, easy and valuable. Without engagement and ease, getting clients from one end of your advice process to the other may very well feel like you are climbing mountains every day of the week. Be clear about what you offer and the value you add, and communicate that in an engaging way.

3: Poor positioning

Fitting in is the path to mediocrity. Standing out is the road to success. If you offer exactly the same as your competitors, why should people buy from you? What benefits (that really matter to people) are you offering? In a world full of mediocrity and "sameness" it does not take much to stand out from the crowd.

Be clear about your offering, communicate it well and, once you have got leads through the door, make sure your advice process and ongoing servicing do not let you down.

4: Over-engineering

Often the most effective ways of marketing are the simplest. Word-of-mouth recommendations and referrals are by far the best strategies but many advisers are reluctant to ask for fear of sounding desperate or needy.

Simple techniques like adding a referral card to your ongoing client servicing packs or building relationships with solicitors and accountants through straightforward conversations can reap massive rewards while being subtle. Over thinking your messages or your marketing is not always a requirement.

Great marketing does two things. It cuts through the noise of the thousands of messages your target market is exposed to every single day and it inspires people to take action. For your business to reach its full potential great marketing is not optional; it is a necessity.

Steve Billingham is director of Steve Billingham Consulting

BUSINESS TIPS



DAVID SHELTON

People planning

The direction and scale of your business as well as your target clients will help decide your people plan. If you think about the following, you will be able to work out what type of people you need and how many of them.

- What are the main needs of your target market?
- What is the service proposition?
- How will the client bank change over the next three to five years?
- How many clients can be supported by an adviser?
- How many advisers and which specialisations will be required?

Work out the type of people you need and how many

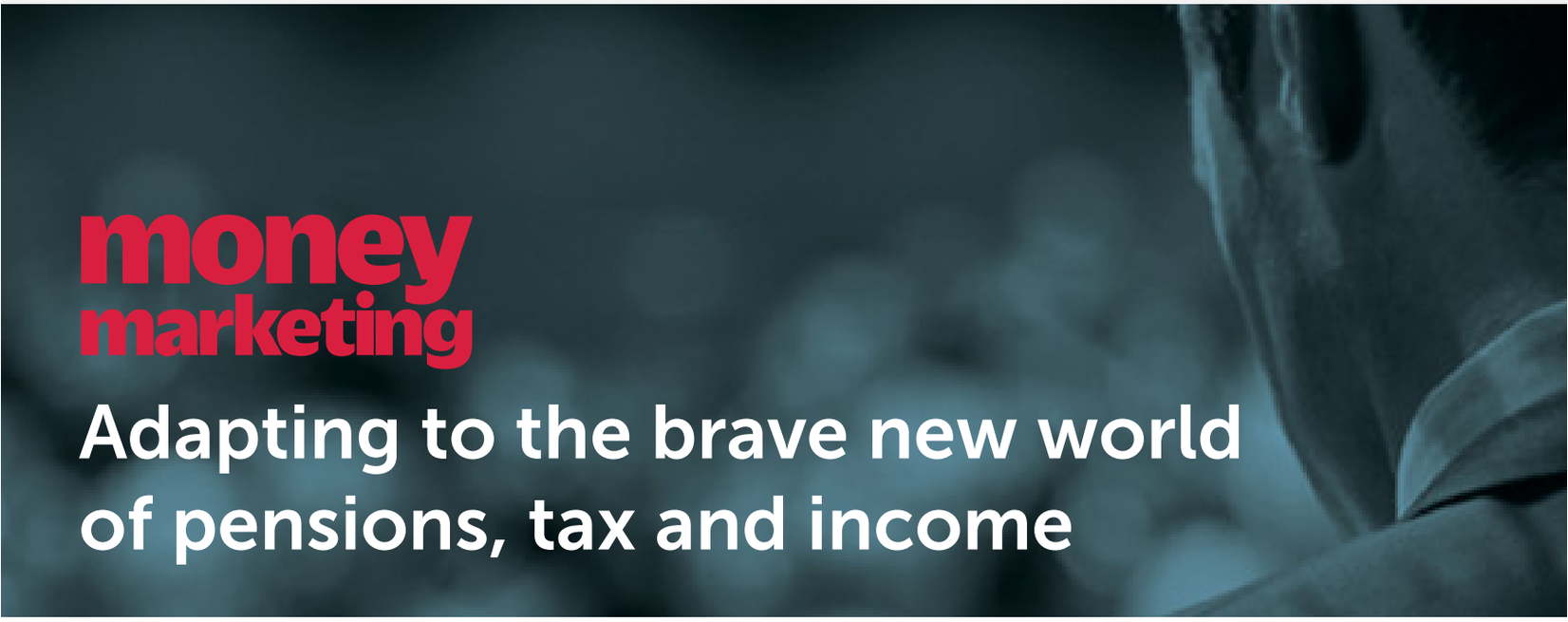
- What type of support roles will be needed and in what number?
- What additional roles will be needed, for example, specialist managers?

Thinking about this will help you decide on the numbers and mix of people, and the skills and capabilities they must possess. It is as important to review the type of people in the business as maintaining the financial plan. There is a scarcity of highly skilled paraplanners, advisers and administrators, so being clear about your requirements can give you a better chance of recruiting.

David Shelton is a consultant at Stoke Bishop Associates

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TAX PLANNING



TONY WICKENDEN

Behind the headlines

Your clients will not be as sceptical as you are about Government promises of tax cuts

We all know better than to take a government soundbite (or an opposition one for that matter) at face value, don't we? We have been "had" like that before. Well, we have had quite a few of them to deal with lately – and big ones at that. For example, "no tax on death benefits", "£1m passing inheritance tax free" and, of course, "less tax relief for high earners".

While we, being a sceptical bunch, will naturally question the headline, the same will probably not be true of your clients. And that is understandable on two grounds. First, each headline taken on its own looks eminently sensible. What is to question? Second, who can blame them for not having the time or inclination to look beyond the headline? Their lives are full of more important things, like family, bills, holidays and qualifying for the knockout stages of the Champions League.

But there may well come a time for your clients when one (or more) of these headlines is actually relevant to them, and that is when they will need your advice.

I have been giving a bit of thought recently to the "no tax on death benefits" headline, so let's have a butcher's at that one first. It was announced by the Chancellor at the Conservative party conference last year, about the time of (and arguably to deflect attention from) the defection of the aptly named Mr Reckless to "The Ukips" (I apologise here to Stewart Lee for stealing his brilliant pluralising of the name of said party in one of his excellent *Comedy Vehicle* programmes. I wouldn't want him putting me into the same category as Joe Pasquale now, would I?).

Anyway, what Mr Osborne said was: "There are still rules that say you can't pass on to the next generation any of your pension pot when you die without paying a punitive 55 per cent in tax. I could choose to cut this tax rate. Instead, I choose to abolish it altogether."

While he may have intended that to be what came to pass, it plainly has not. Like the other soundbites (or, if you prefer, promises) I referred to above it[0], first, is not strictly true and, second, requires a mass of legislation and guidance to make it work.

The problem with the second point is that the very process of producing



Osborne: Promise to abolish tax on death benefits was not strictly true

What sounds, at first pass, like an 'everyone's a winner' type provision turns into a 'so you (HMRC) win again' type provision

the rules gives the "rule writers" the opportunity to introduce small print and conditions to limit the number of people who can benefit from the process and thus limit its tax cost to the Treasury.

These limitations will not have been referenced in the headline but they will have a material effect on who is able to benefit from the announced change. So what sounds, at first pass, like an "everyone's a winner" type provision turns into a "so you (HMRC) win again" type provision.

And the neat thing about these conditions introduced at the legislative stage is that "the people", if they noticed at all, just take away the headline and not the detail. They will very rarely pore over the legislation. Why would they? A variation on the stealth tax theme if ever there was one.

In relation to the "choose to abolish it altogether" promise, the magnitude of the difference between this statement and reality is quite spectacular. Without informed advice, in the words of Michael Caine, "not a lot of people know that" – or, in all likelihood, care. At least not until it affects them or their family.

If any of your clients have any meaningful level of pension fund, the complex rules relating to who can receive death benefits, in what form and subject to what tax, will be very important to them. Who better than their financial adviser to make them aware of the resulting pitfalls and opportunities?

Tony Wickenden is joint managing director at Technical Connection

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PENSIONS



MOIRA WARNER

School of thought

Changes to teachers' pensions could leave some clients with a gap between retirement and being able to access additional benefits

Case study: Lelsey is a 48-year-old head of department at a Manchester school. She had 24 years and 212 days of final salary service when the Teachers' Pension Scheme changed to a career average structure on 1 April 2015. Although she will be able to access her final salary pension benefits at age 60, the benefits accrued in the career average scheme cannot be accessed on an unreduced basis until the higher age of 65 and her state pension age, which is 67.

If Lesley retires at 60, there will be a seven year "gap" between the age at which she can take only her final salary benefits on an unreduced basis and the age at which she can access all her benefits unreduced without an actuarial adjustment to the career average tranche. Lesley would still like to retire at age 60 and meets with her adviser to discuss her options.

Solution: Although she has moved into the career average scheme, her final salary benefits will continue to be linked to her salaries earned in the career average, as long as she does not have a gap in pensionable public service of more than five years ending on or after 1 April 2015. Her adviser must therefore make reasonable assumptions on Lesley's salary progression over the 12 years to her retirement on 1 October 2027.

Lesley's career average benefits will revalue by CPI plus 1.6 per cent, as long as she remains in active service, so her adviser will have to make an assumption on CPI over this period. This will also facilitate a lifetime allowance check.

The actuarial reduction to her career average benefits for the period between ages 65 and 67 will be a "standard" reduction of 3 per cent each year, whereas she will suffer a higher reduction for years 60 to 65.

Based on Lesley's current salary of £55,000, her adviser calculates an expected final salary at age 60 of £64,787, based on an increase of 1.5 per cent per annum. This would give Lesley an expected final salary pension at 60 of £19,906.46, with an expected lump sum of £59,719.41.

Her unadjusted career average pension at age 67 would be £15,693.91 per annum but if she retires at 60 it would reduce to £11,359.25: an actuarial reduction of £4,334.66 per annum.

Lesley's final salary benefits will not be increased if she takes them later than age 60. If she were to retire as a deferred member before age 67, her career average benefits would suffer the full reduction in respect of years 65 to 67. So her adviser counsels against deferral to age 67.

Instead, the adviser considers it might be most suitable for Lesley to take all her benefits at 60 and make up the career average reduction through additional money purchase or defined benefit contributions.

Lesley's adviser considers all the options to increase the benefits she will get from her scheme on retirement at age 60. Looking first at the Teachers' Pension Scheme, the adviser discounts a number of options. Lesley has missed the deadline for an actuarial reduction buyout election, which she would need to have made within six months of joining the career average scheme. The faster accrual option is also unsuitable on the basis that the dependants' death benefits included are not required: Lesley's husband has generous pension benefits through his employer and she has no eligible children.

Buying additional pension would allow Lesley to accrue additional self-only pension with no dependants' pension. As this would also be actuarially reduced if taken early, she would need to buy £6,000 in additional pension to be left with a £4,152 per annum additional pension before revaluation. The gross cost of doing this would be £573.60 per month for 12 years.

Alternatively, if Lesley were to make a gross contribution of £550 per month over 12 years to a money purchase pension arrangement, assuming 5 per cent per annum growth and 1 per cent annual management charge, after 12 years she would have a fund value of £95,800. This would produce a level annuity with a five-year guarantee of around £4,330. Alternatively, Lesley could take one or more cash lump sums from her money purchase pension pot or use drawdown to provide additional income flexibility.

As Lesley anticipates having the greatest expenditure in early retirement and likes the flexibility of being able to increase her contributions when her cashflow allows, her adviser recommends she commences contributions of £550 per month to a money purchase arrangement.

By doing this, Lesley is able to mitigate the impact of the actuarial reduction which would apply to the career average portion of her benefits if she takes them at her previous final salary normal pension age and provide an income shape that meets her expected needs in retirement.

Moira Warner is public sector technical manager at Prudential

THE CPD CENTRE QUIZ

To help you to keep up with the fundamentals of tax, retirement and financial planning, try these two questions.

1 Max has a single-premium UK life assurance policy that he started five-and-a-half years ago. His initial investment was £10,000 and he has taken four 5 per cent annual withdrawals over the lifetime of the policy. It is now worth £16,000. He intends to assign the policy in trust. As a higher rate taxpayer with a taxable income of £100,000, what amount of tax will he have to pay on this transaction?

A) £1,200
B) £1,600
C) £2,400
D) No tax

2 Luke is currently non-UK resident and has £10,000 to invest. He would like to put this into an Isa for his return to the UK in a few years time. How much can he invest in 2015/16?

A) None, as the investor must be resident in the UK
B) The full amount can be invested in a stocks and shares Isa
C) £10,000 in an Isa, with £5,000 as the cash limit and the remainder in stocks and shares
D) The full amount can be invested in a cash Isa

3 The money purchase annual allowance has applied from 6 April 2015. Which of the following is true about this allowance?

A) The MPAA applies to any individual who is in drawdown
B) If the MPAA is exceeded, the annual allowance for non-money purchase arrangements reduces to £30,000
C) The non-money purchase annual allowance is not affected by the value of contributions to money purchase schemes
D) The carry-forward facility is available in respect of both the MPAA and the non-money purchase annual allowance

Answers 1:D, 2: A, 3: B

Questions supplied by CPD Centre

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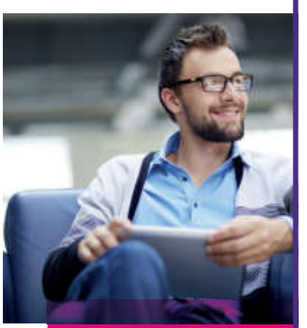
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What to look for in a new CMS provider

by Ann Dempster, Plum Software Managing Director

Okay, it's time. You need to do something about your Client Management Software (CMS) and get back to the fun of being a financial adviser. But which software is right for you? How do you get beyond the sales pitch and make sure your CMS provider can truly understand your needs and support your business?

Here are three simple questions to help you get to what matters.

Does the CMS complement your business practices?

The most important function of any CMS is to make your job easier. You need to be able to create workflows and assign tasks, modify or create bespoke fields to align with the way you manage your business and communicate with your clients.

It is critically important that you have a live demonstration of the software, not just a PowerPoint presentation or online demo, so that you can be sure the CMS works the way you work, that can be tailored and adapted to fit with your processes.

Will you get the support and development that you need?

Your business moves fast, your CMS partner needs to move with you. A good CMS serves your business needs today and will grow with you as your business grows. Look for a system with robust development capabilities and a track record for listening and responding to client feedback. Check out their customer support too – make sure they offer phone support and not just an email helpdesk. Further, make sure that when you call you talk to an expert right away, nothing can disrupt your business more than not being able to get answers you need when you need them.

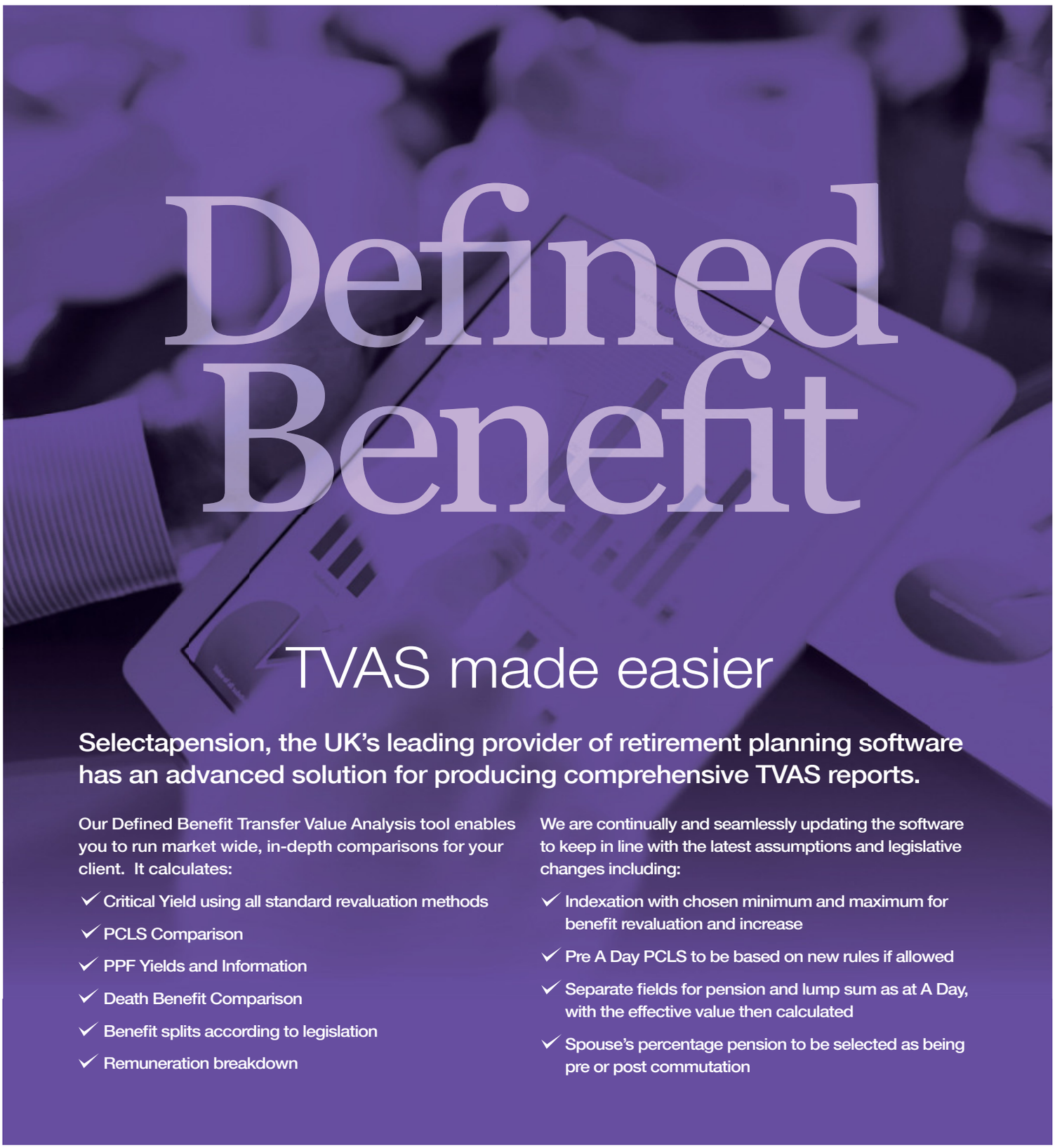
Is your data secure and accessible?

Your clients trust you to protect their data. Check and double check the security measures of your CMS provider, and if they are cloud based make sure it's a private cloud and that your data is protected by the Data Protection Act. Also make sure that you have access to your data and that you can readily get it from your provider at no additional cost. After all, it's your data!

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Fifty-year hat-trick record of IFA Jefferies' Uncle Willie

Poland's Robert Lewandowski may have scored a hat-trick in 3 minutes 59 seconds in a game against Georgia over the summer, but that does not beat the three in well under four minutes achieved by England's Willie Hall against Northern Ireland back in 1938.

It turns out Hall was the uncle of Panoramic Wealth IFA and former Society of Financial Advisers vice-chairman Gary Jefferies, who still has the England cap Hall was given on that historic day.

Hall's tally for the day was five goals, scored in a 30-minute period either side of half-time in a 7-0 rout.

His international hat-trick record lasted for over half a century, but was beaten by Arif Erdem of Turkey who netted three in three minutes in 1999 in a game against, you guessed it, Northern Ireland.

If you are or know a record-breaking adviser, let us know at *@MM_WSJ*.



Willie Hall: Five-goal match tally

Drive fit for a demon dialler

How long do you think it took savers to begin asking to access their pensions?

When Chancellor George Osborne made his landmark announcement on the retirement reedoms in March 2014 he sent the markets into a frenzy, but even Osborne could not have expected the speed of response from one saver.

For *WSJ* hears that The Pensions Advisory Service received its first call on pension freedom while the Chancellor was still at the despatch box.

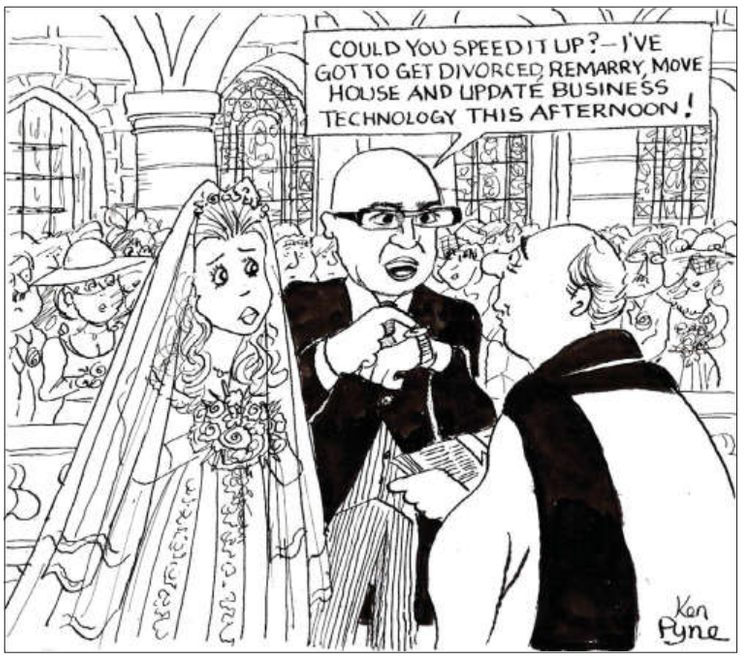
And it's all the more impressive given that the regime change was the penultimate announcement of Osborne's entire speech, followed only briefly by the abolition of a 10p starting rate on income for savers.

WSJ was unable to track down the saver in question, but if there was ever a pensioner to buy a Lamborghini, it's the Brit with the fastest dialling finger in town.



Pension saver's dream?

OUT OF CONTEXT



"It's like getting divorced, getting remarried and moving house in one week"

Nucleus business development director Barry Neilson on the challenges of updating platform technology.

"I ended up in your 'message centre' that was too bewildering to leave a message in"

Apfa's Chris Hannant is left confused after calling *Money Marketing*.

"Leave the love-bombing for outside the committee, please Chancellor!"

Labour MP and Treasury committee member Wes Streeting is alarmed to find himself agreeing with Chancellor George Osborne.

"There's a bit between having the afternoon off and going back to work, and I'm somewhere in there"

Former Labour MP and now Aberdeen Asset Management head of retirement savings Gregg McClymont is on relaxed form.

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